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Essays on Corporate Social Responsibility and Disclosure

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Essays on Corporate Social Responsibility and Disclosure

Abstract

This thesis explores two subjects: corporate social responsibility (CSR) and social responsibility disclosure (SRD). Its primary aim is to extend knowledge of SRD in Portugal. A multi-theoretical framework for the analysis of SRD, which combines resource-based perspectives (RBP) and social and political theories, is developed. According to the theoretical framework adopted, the contribution which CSR and SRD may have to financial performance is nowadays primarily related to qualitative factors, such as employee morale or corporate reputation.

This investigation of SRD in Portugal analyses the nature of SRD in annual reports and on the Internet by a sample of companies listed on *Euronext – Lisbon*, and by a sample of Portuguese banks. It also examines the use of the Internet for SRD by the best companies to work for in Portugal (as assessed by the Great Place to Work Institute Portugal) compared to a group of matched companies. Using content analysis, SRD was classified in terms of theme (environment, human resources, products and customers and community involvement). Results suggest that the framework adopted may be useful in the analysis of SRD and should be further developed and used.

At the theoretical level, this thesis develops a framework for analysis of social responsibility activities and disclosure by exploring the usefulness of RBP in understanding the motivations companies have to engage in these practices. At the empirical level, an important contribution is made to the knowledge of SRD practices in Portugal by providing new empirical data. In addition, this thesis addresses some shortcomings in SRD research. First, the limited emphasis on the impact of CSR related to human resources and the possible effects which SRD may have on such impact. Second, the scantiness of studies on social responsibility and disclosure practices of companies belonging to sectors with little environmental impact, such as banking and finance. Another aspect which this thesis addresses pertains to the analysis of other disclosure media besides annual reports, in particular the Internet. By analysing both these two media this thesis contributes to the scarce literature analysing more than one medium of SRD.

Ensaios sobre Responsabilidade Social das Empresas e Divulgação de Informação sobre ela

Resumo

Esta tese trata os temas da responsabilidade social das empresas (RSE) e da divulgação de informação sobre responsabilidade social (DIRS). O seu principal objectivo é o de contribuir para o conhecimento da DIRS em Portugal. Nela desenvolve-se um enquadramento teórico para a análise da RSE e da DIRS que combina *resource-based perspectives* (RBP) e teorias sociais e políticas. De acordo com tal enquadramento, o efeito que a RSE e a DIRS têm sobre a competitividade e rendibilidade das empresas está principalmente associado a factores de natureza qualitativa, tais como a reputação das empresas e a motivação dos trabalhadores.

Nesta tese, a investigação sobre a DIRS em Portugal faz-se através da análise da natureza da DIRS nos relatórios e contas anuais e na Internet por parte de uma amostra de empresas com acções cotadas na *Euronext – Lisbon* e de uma amostra de bancos portugueses. Também se analisa a utilização da Internet para DIRS por parte das melhores empresas para trabalhar em Portugal, por comparação com um conjunto de empresas de dimensão semelhante e pertencentes aos mesmos sectores de actividade (amostra emparelhada). Através de análise de conteúdo, a DIRS é classificada em temas (ambiente, recursos humanos, produtos e consumidores e envolvimento na comunidade). Os resultados obtidos sugerem que o enquadramento teórico adoptado poderá ser útil na análise da DIRS e deverá ser adicionalmente desenvolvido e utilizado.

A nível teórico, esta tese contribui para o desenvolvimento de um enquadramento teórico para análise da RSE e da DIRS, através da exploração da utilidade das RBP na compreensão das motivações subjacentes ao envolvimento das empresas em tais práticas. A nível empírico, contribui-se para o conhecimento da DIRS em Portugal. Além disso, procura-se colmatar algumas lacunas existentes na investigação sobre DIRS: em primeiro lugar, ao nível da análise do impacto da RSE relacionado com os recursos humanos e os possíveis efeitos que a DIRS poderá ter sobre tal impacto; em segundo lugar, ao nível da RSE e DIRS de empresas de sectores com reduzido impacto ambiental, como o sector bancário. Procura-se também contribuir para a análise da utilização de outros meios de divulgação de informação para além dos relatórios e contas anuais, designadamente a Internet. Através da análise destes dois meios, contribui-se para a escassa literatura que analisa mais do que um meio de DIRS.

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Chapter 1

Introduction

1.1 Background

Recent initiatives of national and international organizations and interest by large companies in accounting techniques such as sustainability reporting are undisputed evidence of a growth in importance of corporate social responsibility (CSR) and social responsibility disclosure (SRD). In effect, some international organizations have launched important initiatives to promote CSR and SRD, such as the Global Reporting Initiative's (GRI) Sustainability Reporting Guidelines (GRI, 2002), the United Nations's (UN) Global Compact (Williams, 2004), the Council on Economic Priorities's (CEP) SA8000 (Rohitratana, 2002), the Institute of Social and Ethical Acountability's (ISEA) Foundation Standards AA1000 (Beckett and Jonker, 2002). The Green Paper of the European Commission (2001), "Promoting a European framework for corporate social responsibility", and the follow-up 2002 Communication (European Commission, 2002) are noteworthy examples of important initiatives. To these, should be added legislative requirements on SRD, such as the French "Nouvelles régulations économiques", (see, for example, Capron and Quairel-Lanoizelée, 2004; Chua, 2005; Hibbitt and Collison, 2004).

CSR is nowadays related to issues such as environmental protection, health and safety at work, relations with local communities and relations with consumers. It may be defined as "a concept whereby companies decide voluntarily to contribute to a better society and a cleaner environment" (European Commission, 2001, p. 5). Companies are thus supposed to voluntarily integrate social and environmental concerns in their operations and interaction with stakeholders.

In a similar vein, SRD is nowadays associated mainly with voluntary disclosures of information pertaining to several social and environmental aspects upon which companies' activities may have an impact: employee-related issues, community involvement, environmental concerns, other ethical issues, etc. This information may be qualitative or quantitative, made in financial or non-financial terms, and seek to inform or influence readers.

SRD in corporate reports can be traced back at least to the beginning of the twentieth century (see, for example, Guthrie and Parker, 1989; Maltby, 2004, 2005). However, SRD seems to have emerged as an important subject only in the 1960's and 1970's (see, for example, Chua, 2006; Epstein, 2004). In particular, in the 1970's social accounting developed rapidly, with professional accounting bodies giving it considerable attention (see, for example, AAA, 1973, 1974, 1975, 1976). By this time social information requirements began to enter company legislation. A prominent example of this is the "bilan social" in France, which dates from 1977 (Gray *et al.*, 1996; Mathews, 1993). The social audits which emerged during the 1970's can be considered as precursors of contemporary company social, environmental and sustainability reports (Gray, 2000). Thus, it can be said that the first systematic efforts to measure and disclose several dimensions of corporate social performance date from about the 1970's.

CSR and SRD are associated with social and political climates, and are influenced by major events that occur and draw public attention to certain social responsibility matters. Prior to the 1960's companies were expected to be profitable, pay their taxes, provide reasonable wages, and meet basic health and safety regulations, in order to be deemed as good corporate citizens. However, during the 1960's and 1970's, society's expectations changed to expect businesses also to address other social issues.

Analyses of the General Motors (GM) Public Interest Reports (PIR) published between 1971 and 1990 (Marx, 1992; Malone and Roberts, 1996) have revealed these changing social priorities. For example, in GM's PIR, corporate governance was first discussed in 1979, acid rain in 1983, medical cost in 1984, ozone depletion in 1987, global warming in 1989 (Marx, 1992, p. 43). Doing business with South Africa was not a socially responsible action in the 1980's (Lamb *et al.*, 2005), and Malone and Roberts (1996, p. 770) use it as an example of their conclusion that as public attention increased on a particular issue, the level of General Motors disclosures related to that issue also increased.

More recently, incidents such as the chemical leak in Bhopal (1984) and the Exxon Valdez oil spill (1989), prompted a change in the social and political climate. SRD has become associated primarily with corporate environmental practices. Epstein (2004) argues that the period between 1987 and 1998 was characterized by a proliferation of corporate environmental reports primarily intended for external rather than internal distribution. However, advances in environmental measurement and disclosure and the evolution of environmental management were not accompanied by important advances in the measurement, reporting and management of broader social impacts (*ibid.*). It was only by the late 1990's that companies began to produce social or sustainability reports in addition (or in substitution of) environmental reports, thus translating a shift of concern to broader social issues (*ibid.*).

An important phenomenon which has contributed to the development of SRD is the growth in importance, throughout the world, of ethical investment funds. These funds select securities according to ethical and environmental criteria (Friedman and Miles, 2002; Schueth, 2004; Sparkes and Cowton, 2004).

Particularly relevant to more recent developments of SRD are recently released reporting guidelines. The Global Reporting Initiative (GRI) guidelines are the most prominent of the different guidelines proposed (GRI, 2002). The Coalition for Environmentally Responsible Economies (CERES), in partnership with the United Nations Environment Programme (UNEP), created the GRI in the late 1990's with the mission of develop and disseminate globally applicable guidelines for companies to use when reporting on economic, environmental, and social performance (see, for example, Capron and Quairel-Lanoizelée, 2004; Chua, 2005).

Another noteworthy phenomenon has been the growth in the last few years in the number of countries which have introduced mandatory SRD requirements (see, for example, Capron and Quairel-Lanoizelée, 2004; Chua, 2005; Hibbitt and Collison, 2004). For example, since 2002 in France, listed companies have been required to report on both environmental and social impacts (Capron and Quairel-Lanoizelée, 2004).

According to the "KPMG International Survey of Corporate Responsibility Reporting 2005" (KPMG, 2005), which analyzed more than 1,600 of the world's largest companies, by selecting the top 250 from the Global Fortune 500 (G250) and the top 100 companies in 16 industrialized nations (N100), CSR reporting has been rising steadily since 1993. In 2005, 52 percent of G250 and 33 percent of N100 companies issued separate corporate responsibility reports, compared with 45 percent and 23 percent, respectively, in 2002. If annual financial reports with corporate responsibility information are included, these percentages are even higher: 64 percent (G250) and 41 percent (N100). A noticeable point is the change that occurred in the type of disclosure: from purely environmental reporting up until 1999, to sustainability (social, environmental and economic) reporting. Sustainability reporting has now become mainstream among G250 companies (68 percent) and is fast becoming so among N100 companies (48 percent).

1.2 Purposes

The pressures to consider the social and environmental impact of business operations have been growing steadily over the past four decades. Engaging in social responsibility activities and disclosure has emerged as an important dimension of corporate voluntary practice. One of the purposes of the thesis, in particular through the empirical studies on SRD contained in it, is to evaluate the diffusion of CSR and SRD in Portugal.

The option of providing a series of general studies on the subjects of CSR and SRD in Portugal is a conscious one and it was made in view of the scantiness of these particular kinds of studies in Portugal. During the completion of the thesis very few studies appeared. Those which now exist pertain mainly to environmental disclosure (see, for example, Carvalho and Monteiro, 2002, 2003; Ferreira, 2004; Monteiro and Guzmán, 2005; Rodrigues *et al.*, 2005). Therefore, it was thought more beneficial to the introduction and development of this area of study in Portugal to develop an ensemble of studies which could present themselves as precursors of further developments to be made in the future.

Another purpose of this thesis, intertwined with the objective of contributing to the knowledge of SRD practices in Portugal, pertains to understanding the motivations companies have to engage in social responsibility activities and disclosure. At the core of the CSR voluntary approach, which is dominant nowadays, seems to be the notion that companies can be trusted to address any problems their operations may cause, without being bound by any kind of laws and regulations. It is thus necessary to understand what kind of motivations are behind these practices.

Maignan and Ralston (2002, p. 498) distinguish three main types of motivations to engage in social responsibility activities. First, following the economic or utilitarian perspective, CSR can be viewed as an additional instrument companies use to achieve traditional corporate objectives. Second, according to the negative duty view, companies engage in social responsibility activities to conform to stakeholder norms and expectations about how their operations should be conducted. Thus, they constitute mainly a legitimacy instrument whereby a company can demonstrate its adherence to such norms and expectations. Third, according to the positive duty approach, companies may be self-motivated to engage in social responsibility initiatives and actively promote social interests, even when such initiatives are not expected or demanded by society.

Both the negative duty and the utilitarian approaches share the idea that the ultimate objective of CSR and SRD is to further the interests of the company in the marketplace. This suggests that they can be used as impression management tools employed to influence stakeholders' perceptions of a company.

Some companies (probably a small number of them) engage in social responsibility activities and disclosure because their managers' personal values are aligned with CSR values. Social issues may merit moral consideration apart from their interest to stakeholders and lead managers to consider the social impacts of corporate activities in their decision making. However, it is difficult to believe that they will take decisions which they know will be detrimental to the company's financial performance. Personal values and the ethical and moral aspects which underlie them will not be explored, and thus, this aspect will not be analysed in this thesis. Hence the essays included in this thesis focus on CSR and SRD as strategic devices used by companies to influence stakeholders' perceptions of the company.

It is more than likely that management will weigh the perceived benefits of CSR and SRD against the related costs. Engaging in social responsibility activities involves costs as it might require, for example, purchasing environmentally-friendly equipment, implementing stricter quality controls, or new health, safety and environmental programs. Disclosing social responsibility information also involves costs such as those related to data collection, communication and audit. Since being and presenting an image of social responsibility involves costs, benefits should accrue as well in order to be a sustainable business practice. However, the investments required may not have an immediate pay-off. In fact, whereas the costs involved are usually short term in nature, or continuous outflows, the benefits are often long term.

Because many factors affect companies' decisions to engage in CSR and SRD, it is probably advisable to recognize that no single theory is sufficiently comprehensive to explain all of them. Thus, to understand why companies engage in CSR activities and disclosure it is necessary to integrate different theoretical perspectives. This has been acknowledged in several recent studies which adopt what has been called multi-theoretical frameworks (Cormier *et al.*, 2005).

In addition to extending knowledge of SRD in Portugal, this thesis also aims to contribute to the development of an adequate theoretical framework to understand CSR and SRD. The theoretical framework proposed acknowledges the two kinds of motivations referred above: those related to the socio-political context within which companies operate; and those related to economic incentives. The motives for engaging in social responsibility activities and disclosure are investigated by exploring economic rationales and institutional forces (such as regulatory, market and social pressures).

Resource-based perspectives (RBP) and social and political theories (SPT) are both considered to provide insights to why companies engage in social responsibility activities and disclosure (Bansal, 2005). The economic approach (RBP) provides an understanding of the motivations related to the improvement of long-term financial performance (competitiveness), whereas SPT provide insights to motivations related to complying with established regulations, norms, values or beliefs.

Whereas SPT have great acceptance in the analysis of CSR and SRD, only quite recently has the usefulness of RBP in the analysis of the economic potentials of social responsibility activities and disclosure, been acknowledged. These perspectives are themselves very modern. In effect, they have only achieved some prominence in the past decade with contributions to the area of strategic management. Some of the main contributors to the resource-based literature in the strategic management field have acknowledged business ethics and CSR as areas of study with important implications (Barney *et al.*, 2001). This thesis contributes to develop the use of theses perspectives in the analysis of CSR and SRD.

1.3 Contributions

One of the main contributions of this thesis is related to the development of a resource-based perspective for understanding CSR and SRD. This contribution is made both at the theoretical and empirical levels. One of the theoretical essays in this thesis contributes to understanding why CSR has strategic value for companies, and how RBP can be used in such endeavour. The argument focuses on the usefulness of these perspectives to the study of CSR and disclosure because of the emphasis placed on the importance of specific intangible resources, such as reputation, culture, or employees' knowledge, and capabilities. Since these resources and capabilities are very difficult to imitate and substitute, they become sources of competitive advantage to a company. On the other hand, all of the empirical studies use a resource-based perspective, alone or in combination with social and political theories, as theoretical framework.

At the empirical level, in addition to the more obvious contribution of adding to the scarce research on SRD by Portuguese companies, this thesis addresses some shortages in SRD literature. At least two consequences of the protracted focus on environmental responsibility and disclosure on research may be identified. First, a limited emphasis on the impact of CSR related to human resources and the possible effects which SRD may have on such impact. Second, a scantiness of studies on social responsibility and disclosure practices of companies belonging to sectors with little environmental impact, such as banking and finance. This thesis tries to the address these two shortages by offering empirical studies in both areas.

Another aspect which this thesis addresses is the analysis of other disclosure media besides annual reports, in particular the Internet. The focus on annual reports that until recently characterized the majority of empirical studies analysing SRD was understandable because these documents could be deemed as the most important tool used by companies to communicate with their stakeholders. However, the Internet has become an important medium through which companies can disclose information of different natures. Thus, exploration of companies' web pages as a SRD medium is now essential. By analysing both such media, this thesis contributes to the scarce literature analysing more than one medium of SRD.

1.4 Structure

The thesis is based on six essays. Each is developed as an independent contribution, although they are related. It is organised into two parts. Part I, primarily related to theoretical contributions and literature reviews, includes three essays: the first essay (chapter 2) provides an introduction to the field of CSR; the second essay (chapter 3) explores the resource-based perspectives as a theoretical framework to understand why companies engage in social responsibility activities and disclosure; the third essay (chapter 4) analyses some relevant issues in SRD research. Part II of the thesis, devoted to empirical contributions, includes three empirical studies on SRD practices by Portuguese companies.

Part I offers an idiosyncratic review and assessment of relevant literature. It attempts to give some sense to the abundant CSR literature, to organize ideas, and set out the conceptual framework for subsequent analysis. This was in itself an extremely challenging task in view of the interdisciplinary nature of CSR. It involves contributions from such seemingly disparate disciplines as accounting, economics, marketing, philosophy, management, sociology The wealth of literature on the subject is almost overwhelming. Brooks (2006, pp. 401-402) argues that the breadth of disciplinary interest revealed by an examination of the literatures referring to CSR, while perhaps providing evidence of the importance or currency of the topic, renders the search for a coherent discourse problematic.

The first essay (chapter 2) shows that a useful notion of CSR should be based on a stakeholder view and should be capable of addressing normative and instrumental aspects. The second essay (chapter 3) contributes to understanding why CSR is seen as having strategic value for companies, and how RBP can be used in such endeavour. The third essay (chapter 4) analyses some relevant issues in SRD research by reviewing relevant literature.

Part II provides three empirical studies on SRD disclosure practices in Portugal. The essays on SRD are based on the understanding that only in specific types of empirical studies it is possible to separate the analysis of CSR disclosure from the analysis of CSR performance. In empirical studies such as those included in this thesis, the analysis of disclosure is also at least partially an analysis of performance. In effect, some studies use SRD as a measure of a company's performance in that area (Bansal, 2005). However it is very difficult to determine whether social performance data disclosed by companies are under-reported or over-reported.

The fourth essay (chapter 5) examines SRD on the Internet by Portuguese listed companies in 2004. It compares the Internet and 2003 annual reports as disclosure media. The fifth essay (chapter 6) examines SRD on the Internet by Portuguese banks in 2004 and 2005 and compares the Internet and 2003 and 2004 annual reports as disclosure media. The results of these two essays are interpreted through the lens of a multi-theoretical framework which combines RBP and social and political theories. Results suggest that the theoretical framework adopted is useful in understanding SRD practices.

The sixth essay (chapter 7), is grounded in a resource-based perspective. It examines SRD on the Internet by Portuguese companies which are engaged blatantly in trying to obtain human resource management benefits derived from CSR (the best companies to work for) by using a matched pair analysis. Results suggest that best companies to work for disclose more social responsibility information than control companies. Companies which want to obtain CSR internal benefits related to their employees recognize the need to use SRD also to influence their perception of its reputation. Results suggest that RBP are useful in understanding SRD practices of these companies.

The final chapter of this thesis offers a summary of the essays and discusses some possible future research.

Part I

Theoretical contributions in corporate social responsibility and social responsibility disclosure

Chapter 2

Positioning stakeholder theory within the debate on corporate social responsibility

2.1 Introduction

The present-day conception of corporate social responsibility (CSR) implies that companies voluntarily integrate social and environmental concerns in their operations and interaction with stakeholders. The European Commission defines it as "a concept whereby companies decide voluntarily to contribute to a better society and a cleaner environment." (European Commission, 2001, p. 5) It is related to complex issues such as environmental protection, human resources management, health and safety at work, relations with local communities, relations with suppliers and consumers.

The notion of CSR is one of ethical and moral issues surrounding corporate decision making and behaviour. Knowing if a company should undertake certain activities or refrain from doing so because they are beneficial or harmful to society is a central question. Social issues deserve moral consideration of their own and should lead managers to consider the social impacts of corporate activities in decision making. Regardless of any stakeholders' pressures, actions which lead to things such as the conservation of the Earth's natural resources or bio-diversity preservation, are morally praiseworthy.

However, some argue that the contribution of concepts such as CSR is just a reminder that the search for profit should be constrained by social considerations (Valor, 2005, p. 199). Increasingly CSR is analysed as a source of competitive advantage and not as an end in itself (Branco and Rodrigues, 2006b). In effect, the concept of CSR has evolved from being regarded as detrimental to a company's profitability, to being considered as somehow benefiting the company as a whole, at least in the long run (see, for example, Hess *et al.*, 2002; Porter and Kramer, 2002; Smith, 2003).

CSR has been conceptualised in a number of different ways which are related clearly to differing views regarding the role of business in society (see, for example, Clarke, 1998; Lantos, 2001). These views are often presented within the stakeholder-shareholder debate. The idea which underlies the "shareholder perspective" is that the only responsibility of managers is to serve the interests of shareholders in the best possible way, using corporate resources to increase the wealth of the latter by seeking profits (see, for example, Friedman, 1998; Jensen, 2001). In contrast, the "stakeholder perspective" suggests that besides shareholders, other groups or constituents are affected by a company's activities (such as employees or the local community), and have to be considered in managers' decisions, possibly equally with shareholders (see, for example, Freeman, 1998; Werhane and Freeman, 1999).

The purpose of this essay is to give an account of the concept of CSR and its evolution, based on the notion that nowadays companies engage in CSR because they can reap benefits from such engagement. Thus, it is necessary to have a CSR notion which is able to address this important feature. The argument is that such notion should be based on a stakeholder view and should be capable of addressing both normative and instrumental aspects of CSR.

This essay argues that the stakeholder perspective has become something which is inescapable if one wants to discuss and analyse CSR. Stakeholder theory is considered as "a necessary process in the operationalisation of corporate social responsibility, as a complimentary rather than conflicting body of literature." (Matten *et al.*, 2003, p. 111) Furthermore, it can be said to exist a "stakeholder metanarrative" (Campbell *et al.*, 2003, p. 559) which underlies the CSR debate. In fact, recent analysis of the extensive body of research on ethics and social responsibility issues show (see, for example, Garriga and Melé, 2004; Margolis and Walsh, 2003) that an important number of the authors who devote themselves to these areas of study have mostly drawn on stakeholder theory.

In the following section, the different perspectives of CSR are analysed and the argument that a stakeholder view of the role of business in society is more adequate, is presented. Thereafter, follow sections on the evolution of the concept of CSR based on the stakeholder perspective, and a discussion of the debate on business and society relationships.

2.2 Perspectives on corporate social responsibility

Based on Clarke (1998) and Lantos (2001) two viewpoints on the role of business in society (which lead to different views on CSR) will be distinguished (Table 2.1). The "classical view", based on neoclassical economic theory, defines it in purely economic profit making terms, focusing on the profit of the shareholders. In contrast, the "stakeholder view", based on stakeholder theory, holds that companies have a social responsibility that requires them to consider the interests of all parties affected by their actions.

Table 2.1: Spectrum of viewpoints on the role of business in society

View	Position on the Role of Business in Society
Classical	Pure profit-making view: business has lower standards of ethics than society and no social responsibility other than obedience to the law.
	Constrained profit-making view: business should maximize shareholder wealth, obey the law, and be ethical.
Stakeholder	Socially aware view: business should be sensitive to potential harms of its actions on various stakeholder groups.
	Social activism: business must use its vast resources for social good.

Source: Adapted from Lantos (2001, p. 602).

2.2.1 Classical view

Lantos (2001) has identified two perspectives in the classical view: the "pure profit-making view"; and the "constrained profit-making view". The "pure profit-making view" is exemplified by Carr's (1968) position. The distinctive feature of this author's perspective is that some degree of dishonesty is acceptable because business people have a lower set of moral standards than those in the rest of society. He compared the ethics of business to those of the poker game. The lower set of moral standards permits what he calls "business bluffing" which includes things like conscious misstatements, concealment of pertinent facts, or exaggeration. Deception is probably a necessary component of a strategy to be successful in business, and thus business people can not afford to be guided by ethics as conceived in private life. Thus, for Carr, a company has the legal right to shape its strategy without reference to anything but its profits, so long as it stays within the rules of the game legally set out by law.

The major proponent of the "constrained profit-making view" is Friedman (1998), who believed companies should behave honestly: that is, they do not engage in deception and fraud. This economist argues that the purpose of the company is to make profits for shareholders. The only responsibility of business is to use its resources to engage in activities designed to increase its profits so long as it stays within the rules of the game. Because managers are agents of the shareholders they have a responsibility to conduct business in accordance with their interest. This is generally to make as much money as possible and maximise their wealth. Under this view, because shareholders are the owners of the company and therefore the profits belong to them, requiring managers to pursue socially responsible objectives may be unethical, since it requires managers to spend money that belongs to other individuals. Asking companies to engage in social responsibility activities is considered to be harmful to the foundations of a free society with a free-enterprise and private-property system. Social problems should be left for the state to address.

Although Friedman's ideas are better known, his view had a conspicuous predecessor in Levitt (1958). The latter also believed that companies should be concerned with improving production and increasing profits while abiding by the rules of the game, which include acting honestly and in good faith, and that social problems should be left for the state to address.

The classical view also has contemporary adherents. Their arguments, which can be associated with the "constrained profit-making view", have arisen mainly in debate with stakeholder perspective proponents (see, for example, Barry, 2000, 2002; Coelho *et al.*, 2003; Henderson, 2005; Jensen, 2001; Sternberg, 1997; Sundaram and Inkpen, 2004). However, it is important to note that not all of these authors can be shown as opposing social responsibility actions by companies.

Barry (2000) argues that companies can only engage in social responsibility activities the less competitive the markets in which they operate are, and that such engagement is a form of rent-seeking by managers. However, the central argument is that the use of companies' resources to further social goals amounts to managers' usurpation of the political function. The difficulty in making appropriate decisions when the predominant authority of shareholders is removed and the purpose of maximizing shareholder wealth is disregarded in order to take into account a variety of interests, is stressed by Barry when he argues that in such conditions decision-making in a company "would resemble that of a parliamentary assembly." (*op. cit.*, p. 105) Barry (2002, p. 545) claims that it leads "to the politicization of the company in that many groups and a number of almost certainly competing purposes must now be considered." Therefore, Barry's assessment of the stakeholder perspective is that it "tries to make the business system operate like the political system." (*op. cit.*, p. 552) This is not advisable because it will "bring all the disadvantages of voting, as well as the enervating effect of pressure groups to an activity that depends on personal freedom and individual initiative to fulfil its promise." (*ibid.*)

The ex-OECD Chief Economist David Henderson (Henderson, 2005) is another of the modern critics of CSR. Whereas Friedman focused his concern in managers adopting misguided objectives, Henderson's focus is on outside interferences with efficient resource allocation. Henderson contends that CSR adversely affects a company's performance. However, his case against CSR rests primarily on the contention that it impairs the performance of business enterprises in their primary role, and would make people in general poorer. He is an adamant opponent of over-regulation, and views increased legislation in this matter to be harmful, and lead to decreased business activity. CSR is seen as leading to ineffective markets, reduced wealth generation and increased social inequity and poverty. He does not attribute any social responsibility related function to companies.

Other contemporary authors defend shareholder value maximization as the one objective function to all companies but are not necessarily against the social responsibility actions by companies (Jensen, 2001; Coelho et al., 2003; Sternberg, 1997; Sundaram and Inkpen, 2004). Basically these authors argue that having more than one objective creates difficulties for managers and some confusion in their decision making. On the other hand, having shareholder value maximization as objective is believed to lead managers to decisions that enhance outcomes for multiple stakeholders. Jensen (2001, p. 11), for example, considers that "200 years' worth of work in economics and finance indicate that social welfare is maximized when all companies in an economy maximize total company value." However, their basic point is that value seeking should be a company's only objective function and having as only objective making money for shareholders implies that managers should not be allowed to pursue moral goals at the expense of profitability.

These authors repeat several of their predecessors' arguments, but they are not necessarily against the social responsibility actions by companies. In the words of Sternberg (1997, p. 9), a company "cannot afford to ignore any stakeholder concern that might affect its ability to generate long-term owner value." A company's interactions with its stakeholders are recognized as affecting profitability, and "ethical executives should consider this as part of their fiduciary duties to shareholders." (Coelho *et al.*, 2003, p. 18) Social responsibility actions might even be used strategically by companies in seeking value maximization of the company. These authors seem to defend what Jensen (2001) calls "enlightened shareholder maximization" view, according to which a company cannot maximize value if any important stakeholder is ignored or mistreated, but the criterion for making the requisite tradeoffs among its stakeholders is long-term value maximization.

Even Carr (1968, p. 149), in spite of defending the pure profit-making view recognized that if a company wishes to take a long-term view of its profits, "it will need to preserve amicable relations with whom it deals. A wise businessman will not seek advantage to the point where he generates dangerous hostility among employees, competitors, customers, government, or the public at large." However, he thought that "decisions in this area are, in the final test, decisions of strategy, not of ethics." (*ibid.*)

The classical view is justified mainly on the basis of neoclassical economic theory arguments using notions such as the free market, economic efficiency, and profit maximisation. This view might be grounded in three different, but complementary, ways:

- first, shareholders are the owners of the corporation, and managers have no right to act on their own preferences, to make discretionary decisions or to use company's resources to further social goals which cannot be shown to be directly related to profits;
- second, companies' role is to produce wealth, and pursue socially responsible objectives may impair their performance in that role interfering with efficient resource allocation;
- finally, other organizations exist to deal with the kind of function requested by socially responsible actions, such as government, and that companies and managers are not equipped to perform such role.

However, some authors believe that CSR is often useful in generating long-term owner value. For some time the arguments that have been presented for strategic CSR arise, at least in part, from the classical idea that the sole objective of business is to maximise shareholder wealth and that a company should engage in CSR activities only if it allows value to be created. This approach is synthesized by McWilliams and Siegel (2001, p. 125). They argue that decisions regarding CSR should be treated by managers "precisely as they treat all investment decisions." Some authors argue that CSR "should be considered as a form of strategic investment." (McWilliams *et al.*, 2006, p. 4)

2.2.2 Stakeholder view

Stakeholder theory is based on the notion that beyond shareholders there are several agents with an interest in the actions and decisions of companies. Stakeholders are "groups and individuals who benefit from or are harmed by, and whose rights are violated or respected by, corporate actions." (Freeman, 1998, p. 174) In addition to shareholders, stakeholders include creditors, employees, customers, suppliers, and the communities at large. Stakeholder theory asserts that companies have a social responsibility that requires them to consider the interests of all parties affected by their actions. Management should not only consider its shareholders in the decision making process, but also anyone who is affected by business decisions. In contrast to the classical view, the stakeholder view holds that "the goal of any company is or should be the flourishing of the company and all its principal stakeholders." (Werhane and Freeman, 1999, p. 8) It is important to stress that shareholders are stakeholders and that dividing the world into the concerns of the two is "the logical equivalent of contrasting 'apples' with 'fruit'." (Freeman *et al.*, 2004, p. 365)

Many interesting typologies of stakeholders have been proposed. Clarkson's typology of stakeholders is the most widely cited and accepted. Clarkson (1995) distinguishes primary and secondary stakeholders. Primary stakeholders are those "without whose continuing participation the corporation cannot survive as a going concern" (shareholders and investors, employees, customers and suppliers, and also governments and communities "that provide infrastructures and markets, whose laws and regulations must be obeyed, and to whom taxes and other obligations may be due") (*op. cit.*, p. 106), whereas secondary stakeholders are "those who influence or affect, or are influenced or affected by, the corporation, but they are not engaged in transactions with the corporation and are not essential for its survival." (*op. cit.*, p. 107)

Some of the problems with stakeholder theory lie in the difficulty of considering "mute" stakeholders (the natural environment) and "absent" stakeholders (such as future generations or potential victims) (Capron, 2003, p. 15). The difficulty of considering the natural environment as a stakeholder is real because the majority of the definitions of stakeholders usually treat them as groups or individuals, thereby excluding the natural environment as a matter of definition because it is not a human group or community as are, for example, employees or consumers (Buchholz, 2004, p. 130). Phillips and Reichart (2000) argue that only humans can be considered as organizational stakeholders and criticize attempts to give the natural environment stakeholder status. The author of this essay agrees with this assertion.

One way of seeing the environment as a stakeholder is through the interests of future generations (Jacobs, 1997). However, it is impossible to ask the opinion of the natural environment or of future generations, and they cannot be members of a consultative committee (*ibid.*). Thus, the problem is that only humans are capable of generating the necessary obligations for establishing stakeholder status and of the necessary volition in the acceptance of benefits of a mutually beneficial cooperative scheme (Phillips and Reichart, 2000, p. 191). However, if among the interests of legitimate stakeholders is a concern for the natural environment, it has to be taken into account. Moreover, the interests of the environment and future generations should contemplated by "being represented in decision-making structures, whether of companies or of society as a whole." (Jacobs, 1997, p. 26)

Regarding stakeholder theory, Donaldson and Preston (1995) argue that it can be used in three different ways:

1. the descriptive/empirical, when it is used to "describe, and sometimes to explain, specific corporate characteristics and behaviors" (*op. cit.*, p. 70);

2. the instrumental, when it is used to "identify the connections, or lack of connections, between stakeholder management and the achievement of traditional corporate objectives (e.g., profitability, growth)" (*op. cit.*, p. 71); and

3. the normative, when it is used to "interpret the function" of companies and identify "moral or philosophical guidelines" that should be followed with regard to their "operation and management" (*ibid.*).

The empirical and the instrumental uses are interrelated inextricably. This suggests a difficulty in relating empirical and normative endeavours. Whereas the former is descriptive in nature and attempts to analyse the way things are, the latter is prescriptive and aims to prescribe how things should to be. The normative and instrumental uses probably entail the existence of two conflicting approaches to stakeholder theory. The normative approach to stakeholder theory views stakeholders as "end". The instrumental approach is interested in how stakeholders can be considered in a way that enhances financial performance and efficiency, and thus regards stakeholders as "means".

The instrumental approach to stakeholder theory views stakeholders' interests as factors to be taken into account and managed while the company is engaged in maximization of shareholders wealth. The underlying argument is that stakeholders' interests are considered as means for higher level goals, such as profit maximization, survival and growth. Referring to the instrumental use, Jawahar and McLaughlin (2001, p. 399) consider that a "fundamental assumption is that the ultimate objective of corporate decisions is marketplace success, and stakeholder management is a means to that end."

Having established the importance of stakeholder management, a question that remains is which stakeholders managers view as most significant. This question has been addressed by Mitchell *et al.* (1997). They offered a theory of stakeholder identification and salience that suggests that managers' perceptions of three key stakeholder attributes (power to influence the company, legitimacy of the relationship with the company and urgency of the claim on the company) affect the degree to which managers give priority to competing stakeholder claims. A stakeholder "may have a legitimate claim on the company, but unless it has either power to enforce its will in the relationship or a perception that its claim is urgent, it will not achieve salience for the company's managers." (*op. cit.*, p. 866)

Power is a stakeholder attribute that has been used to identify and prioritize stakeholders, with some authors suggesting that companies respond to the most powerful stakeholder issues. For example, Nasi *et al.* (1997) found that forestry companies in Canada and Sweden focused on issues that were relevant to the most powerful stakeholders rather than on those issues that were relevant from an ethical or socially responsible point of view.

The "social activist" perspective shares with stakeholder theory the notion that companies are accountable to all other stakeholders beyond shareholders. Hence, they should behave to actively promote social interests, even when it is not expected or demanded by society. Companies should be involved actively "in programs which can ameliorate various social ills, such as by providing employment opportunities for everyone, improving the environment, and promoting worldwide justice, even if it costs the shareholders money." (Lantos, 2001, p. 602)

2.2.3 Enlightened value maximization *versus* enlightened stakeholder theory

The question that one can legitimately pose is: in what way is the use of some kind of stakeholder management as a means to achieve marketplace success different from the classical view? If stakeholder theory does not give any primacy to one stakeholder over another, there will be times when some groups will benefit at the expense of others. The problem that then arises is which groups would be given preferential treatment? One can say that the classical view is purely economic in nature, and presents a clear differentiation between economic and social aspects, whereas stakeholder management perspective brings together social and economic aspects.

Jensen (2001) argues that what he calls "enlightened value maximization" and "enlightened stakeholder theory" may be thought of as identical. Enlightened value maximization uses stakeholder theory to consider that a company cannot maximize value if any important stakeholder is ignored or mistreated. However, it maintains as the criterion for making the requisite tradeoffs among its stakeholders long-term value maximization. Enlightened stakeholder theory considers long-term value maximization or value as the objective function of the company, thereby solving the problems that arise from considering multiple objectives, as in traditional stakeholder theory.

Proponents of stakeholder theory, such as Freeman *et al.* (2004, p. 366), question the alternatives available for managers to create shareholder value other than "by creating products and services that customers are willing to buy, offering jobs that employees are willing to fill, building relationships with suppliers that companies are eager to have, and being good citizens in the community."

What is it then that differentiates stakeholder theory from this enlightened value maximization. Freeman *et al.* (2004, p. 364) argue that the former "begins with the assumption that values are necessarily and explicitly a part of doing business, and rejects the separation thesis", according to which ethics and economics can be separated clearly. Stakeholder theory proponents reject the separation thesis. They see a moral dimension to business activity, because economics "is clearly infused or embedded with ethical assumptions, implications, and overtones." (Carroll, 2000, p. 35) On the other hand, many proponents of the shareholder, single-objective view distinguish between economic and ethical consequences and values and see business as an amoral economic activity.

According to Porter and Kramer (2002, p. 58), Friedman's argument has two implicit assumptions: social and economic objectives are separate and distinct; and by addressing social objectives companies do not provide greater benefit than is provided by individual donors. The enlightened shareholder maximization view also has such assumptions. But the dichotomy between economic and social objectives is a false one because companies do not function in isolation from the society in which they operate (*op. cit.*, p. 59). For these authors, "in the long run, then, social and economic goals are not inherently conflicting but integrally connected." (*ibid.*) Therefore, contrary to Friedman's ideas, managers who undertake social responsibility activities do not necessarily misuse financial resources that legitimately belong to shareholders.

Freeman *et al.* (2004, p. 364) correctly consider that the shareholder, single-objective view "is a narrow view that cannot possibly do justice to the panoply of human activity that is value creation and trade, i.e., business." Whereas the shareholder view sees a unique answer, and attributes one objective function to all companies, stakeholder theory admits a wide range of answers. Freeman *et al.* (2004) also believe that these theories should not be considered as opposed, in the sense that even shareholder theory can be regarded as a version of stakeholder theory, because stakeholder theory admits many possible normative cores (*op. cit.*, p. 368). As a particular version of stakeholder theory, shareholder view's moral presuppositions can be seen as including "respect for property rights, voluntary cooperation, and individual initiative to improve everyone's circumstances. These presuppositions provide a good starting point, but not a complete vision of value creation." (*ibid.*)

Sundaram and Inkpen (2004, p. 356) recognize that decisions to enhance efficiency are made to increase shareholder value and, impose costs on other stakeholders, and imply that it is an acceptable trade-off. According to stakeholder theory as perceived in this essay, such costs are unacceptable unless it can be proven that benefits for the society outweigh them. It is important to note that existent deviations between short run impacts of business activities and the long run alignment of business and social interests in wealth creation leave ample scope for abuse or market power and irresponsible conduct (Windsor, 2001, p. 250). Furthermore, "the leitmotif of wealth creation can easily lead to both moral misconduct and financial manipulation ultimately destructive of social purposes and stakeholders' welfare." (*ibid.*)

2.3 The evolution of the corporate social responsibility concept from a stakeholder perspective

Frederick (1994) referred to the distinction between social responsibility and social responsiveness when he identified two stages of development in the thinking about CSR. The first stage, which he labelled CSR_1, focused on CSR as an examination of companies' "obligation to work for social betterment" (*op. cit.*, p. 151). Around 1970, there was a shift to corporate social responsiveness, labelled as CSR_2, which is "the capacity of a corporation to respond to social pressures" (*op. cit.*, p. 151). Frederick (1986) further developed this analysis by adding a third stage, that of corporate social rectitude (CSR_3), to include "the notion of moral correctness in actions taken and policies formulated" (*op. cit.*, p. 135). In a more recent work, Frederick (1998) refers to the need to enter a new stage (CSR_4) "enriched by natural sciences insights" (*op. cit.*, p. 41). In this essay, the distinction between social responsibility and social responsiveness is of interest and will be developed.

The term "social responsibility" has been challenged as early as the 1970's. Sethi (1975, 1979) distinguishes between social obligation, social responsibility, and social responsiveness. He argues that, like all other social institutions, companies are an integral part of society and must depend on acceptance of their role and activities for their existence, continuity and growth. When a difference between corporate performance and social expectations for such performance occurs, a legitimacy gap is said to exist. The crucial issues in the concept of CSR are the search for legitimacy by companies and the doubts by critics about the legitimacy of companies' actions. Corporate behaviour in response to market forces or legal constraints is defined as social obligation, and is proscriptive in nature. Social responsibility implies congruence of corporate behaviour with prevailing social norms, values and expectations of performance, and it is a concept which is prescriptive in nature. The concept of social responsiveness suggests that what is important is not how a company should respond to social pressures, but what should be their long-term role in a dynamic social system. The idea is that business orientation in any social dimension must be anticipatory and preventive.

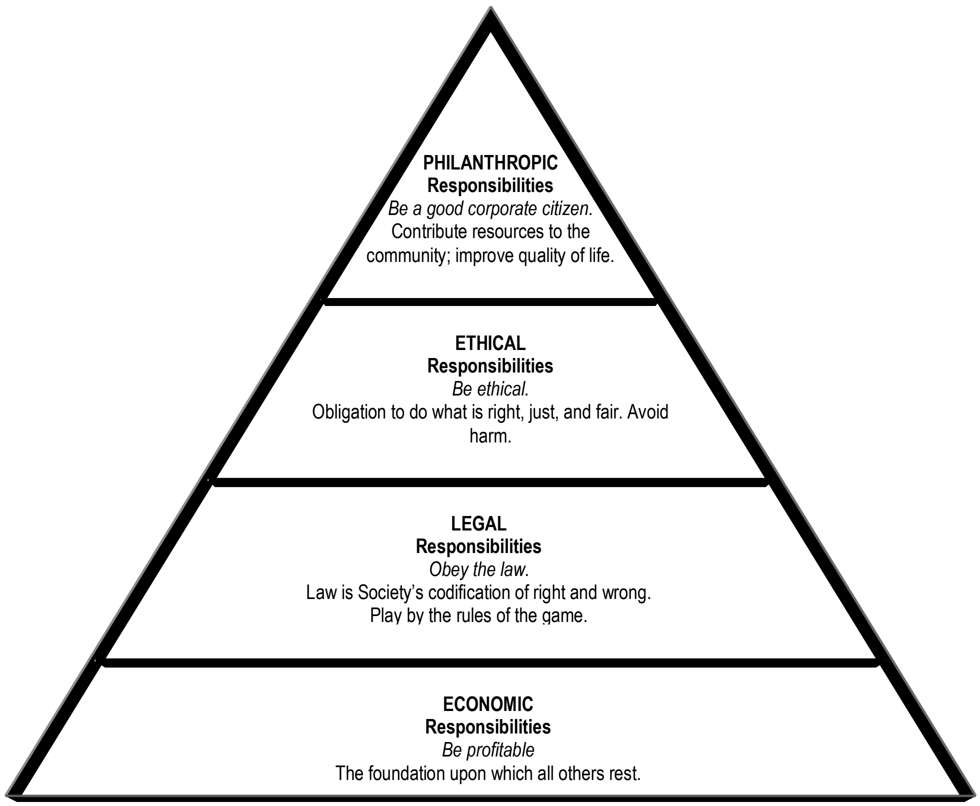
Although Sethi implied that social responsiveness could be seen as a replacement for social responsibility, later writers reject such a view (Carroll, 1979; Wartick and Cochran, 1985; Wood, 1991). For example, Carroll (1979, p. 502) holds that social responsiveness is not an alternative to social responsibility but rather "the action phase of management responding in the social sphere." Wartick and Cochran (1985, p. 765) hold that both "are equally valid concepts and that both should be included as separate dimensions of corporate social involvement." The concepts of social responsiveness and of corporate social performance can be seen as the evolution of the concept of social responsibility. In this essay, the concept of CSR is seen as including the other two concepts.

Carroll's "Three-dimensional Conceptual Model" (Carroll, 1979, 1991) was the initial model of corporate social performance. It consisted of an integration of three aspects: first, a definition of social responsibility; second, an identification of the social issues to which these responsibilities are tied, such as consumerism, environment, employment discrimination, product safety, occupational safety and health; and third, the philosophy of responsiveness, that is the philosophy, mode, or strategy behind companies' response to social responsibility and social issues (reaction, defense, accommodation, and proaction).

Building on previous definitions of CSR which refer to the responsibility to make a profit, obey the law, and "go beyond" these activities, Carroll (1979, 1991) argues that CSR encompasses four categories of social responsibilities: economic, legal, ethical, and discretionary (or philanthropic). Economic responsibilities reflect the belief that companies have an obligation to produce goods and services that consumers need and want, and to be profitable in the process. Legal responsibilities indicate that companies are expected to pursue economic responsibilities within the confines of written law. Ethical and discretionary responsibilities encompass the more general responsibilities to do what is right and avoid harm. Ethical responsibilities indicate a concern that companies meet society's expectations of business conduct that are not codified into law, but rather are reflected in unwritten standards, norms, and values implicitly derived from society. Companies' discretionary responsibilities are volitional or philanthropic in nature, in the sense that they represent voluntary roles assumed by companies for which society's expectations are not as clear-cut as in the ethical responsibilities.

Carroll (1991) argues that these four categories of corporate social responsibilities can be depicted as a pyramid, in which economic responsibilities are the foundation upon which all other responsibilities are predicated and without which they can not be achieved, and discretionary responsibilities are the apex (Figure 1). Notwithstanding, companies are expected to fulfil these four social responsibilities simultaneously. An important consideration regarding this perspective is that, contrary to the common belief that economic responsibility is related to what the companies do for themselves, and the other responsibilities are related to what they do for others, "economic viability is something business does for society as well." (Carroll, 1999, p. 284)

Figure 2.1: Carroll's Pyramid of CSR



Source: Carroll (1991, p. 42).

Matten *et al.* (2003, p. 110) underline the centrality of the ethical and philanthropical areas of responsibility to the study of CSR because of the differentiation they allow to establish between voluntary corporate behaviour and mere compliance. The CSR debate has focused on the moral and philanthropic responsibilities, giving little attention to economic and legal responsibilities. In this essay, the term CSR will also be used to refer to ethical and philantropical responsibilities of business.

An important and recent addition to the discussion of Carroll's model was offered by Carroll himself in Schwartz and Carroll (2003). These authors develop a three-domain approach, in which they propose the subsumption of the philanthropic or discretionary component under the ethical and/or economic components. The reasons for such proposal are related, on the one hand, to the difficulty in distinguishing between "philanthropic" and "ethical" activities on both the theoretical and practical levels, and, on the other hand, to the observation that philanthropic activities are often explained by underlying economic interests (*op. cit.*, p. 506). As the authors argue, a company can engage in philanthropical activities for ethical or economic reasons or a combination of the two. When economic motives, such as increased sales, enhanced public image or improved employee morale, underlie a company's actions in the form of strategic philanthropy, this does not constitute a distinct philanthropic obligation (*op. cit.*, p. 507).

Carroll (1991, p. 43) provided a linkage to stakeholder theory by noting the "natural fit between the idea of CSR and an organization's stakeholders." Furthermore, the concept of stakeholder personalizes social responsibilities by specifying groups or persons to whom companies are responsible and should be responsive (*ibid.*).

Carroll's model was later extended and modified by Wartick and Cochran (1985) and Wood (1991). Wartick and Cochran (1985) presented a "Corporate Social Performance Model" which also integrates three areas: the principles of CSR (using Carroll's four categories of social responsibilities as "principles"); the processes of corporate social responsiveness (reactive, defensive, accommodative, and proactive); and the policies developed to address social issues (social issues management). A summary of the model is presented in Table 2.2.

Table 2.2: The corporate social performance model of Wartick and Cochran

Principles	**Processes**	**Policies**
Corporate Social Responsibilities (1) Economic (2) Legal (3) Ethical (4) Discretionary	**Corporate Social Responsiveness** (1) Reactive (2) Defensive (3) Accommodative (4) Proactive	**Social Issues Management** (1) Issues Identification (2) Issues Analysis (3) Response Development
Directed at: (1) The social contract of business (2) Business as a moral agent	Directed at: (1) The capacity to respond to changing societal conditions (2) Managerial approaches to developing responses	Directed at: (1) Minimising 'surprises' (2) Determining effective Corporate Social Policies
Philosophical Orientation	Institutional Orientation	Organisational Orientation

Source: Wartick and Cochran (1985, p. 767).

Wood (1991, p. 695) considers that the basic idea of CSR "is that business and society are interwoven rather than distinct entities; therefore, society has certain expectations for appropriate business behaviour and outcomes." She retained Carroll's four categories and identified how they relate to the CSR principles (the principle of legitimacy, the principle of public responsibility, and the principle of managerial discretion), considering that the first can be viewed as domains within which the latter are enacted (*ibid.*). The principle of legitimacy operates on an institutional level and is based on a company's overall responsibilities to the society in which it operates, specifying what is expected of all companies. It is a proscriptive principle, "and it implies that society has available sanctions that can be used when these obligations are not met." (*op. cit.*, p. 699) The principle of public responsibility functions on an organizational level, stating that companies are "responsible for solving problems they have caused, and they are responsible for helping to solve problems and social issues related to their business operations and interests." (*op. cit.*, p. 697) Finally, the principle of managerial discretion functions on an individual level and emphasizes managers' responsibilities to behave as moral actors and make choices about activities designed to achieve socially responsible outcomes.

Wood (1991) also suggests that companies use three main kinds of processes to bring these principles into practice: environmental assessment, issues management, and stakeholder management. She then presents the outcomes of bringing principles into practice within the economic, legal, ethical, and discretionary domains, categorizing them in terms of social impacts (beneficial or negative), social programs (which refer to the actions companies take to manage their social impacts in a favourable manner), and social policies (which emerge to guide decision making).

Wood and Jones (1995) use a stakeholder framework to modify Wood's definition of corporate social performance as principles, processes, and outcomes. They redefine the outcomes as internal stakeholder effects, external stakeholder effects, and external institutional effects. They argue that stakeholders have three roles: they are the sources of expectations about what constitutes desirable and undesirable company performance, defining the norms for corporate behaviour; they experience the effects of corporate behaviour; and they evaluate the outcomes of companies' behaviours in terms of how they have met expectations and have affected the groups and organizations in their environment (*op. cit.*, p. 231).

From a stakeholder theory perspective, corporate social performance can thus be assessed in terms of a company meeting the demands of its multiple stakeholder groups, and companies must seek to satisfy their demands "as an unavoidable cost of doing business." (Ruf *et al.*, 2001, p. 143) Corporate social performance is considered to refer to "the ability of the company to meet or exceed stakeholder expectations regarding social issues." (Husted, 2000, p. 27)

Clarkson (1995) holds that a stakeholder management framework is more useful to the analysis and evaluation of corporate social performance than models and methodologies based on concepts of social responsibilities and responsiveness. He contends that it is necessary to distinguish "between stakeholder issues and social issues because corporations and their managers manage relationships with their stakeholders and not with society." (*op. cit.*, p. 100)

However, it is vital to understand that being responsive to stakeholders' expectations implies the need to consider prevailing social norms and dominant views of corporate responsibilities. Stakeholders' expectations of companies are intertwined inextricably with society's views or expectations of business performance which evolve over time. Thus, the distinction between stakeholder issues and social issues may not be as straightforward as it seems.

Nonetheless, Hillman and Keim (2001) argue that to analyse the relationship between social performance and financial performance, it is useful to distinguish between two components of corporate social performance: stakeholder management and social issue participation. They believe that these two components of social performance have opposing relationships to financial performance. Building good relations with primary stakeholders is susceptible of leading to increased financial returns. On the one hand, it assists companies in developing valuable intangible assets (resources and capabilities) which can be sources of competitive advantage because such assets can differentiate a company from its competitors. On the other hand, pursuing social issues that are not related directly to the relationship with primary stakeholders may not create such advantages, because participating in social issues is something which can be easily copied by competitors. Thus, one can infer that social responsibility activities can pay off, as long as they are in the interest of a company's primary stakeholders. Hillman and Keim's (2001) conclude that whereas stakeholder management can lead to shareholder wealth creation, participation in social issues does not have the same kind of result.

The conception of CSR adopted in this essay is based clearly on the perspective put forward by Carroll (1979, 1991, 1999, 2000) and Schwartz and Carroll (2003), and extended by Wartick and Cochran (1995), Wood (1991), and Wood and Jones (1995). This perspective has evolved to incorporate stakeholder theory concepts, already present in Carroll (1991) and Wood (1991), but particularly developed by Wood and Jones (1995) and Clarkson (1995).

Carroll's model is adopted in this essay, although the focus will be on ethical and philanthropic components. A distinctive feature of Carroll's model is that it draws attention to the importance of economic responsibilities as a fundamental concern of managers. In this essay this is considered as an important concern for three reasons. First, the economic responsibilities of companies are also fundamental from a social point of view, as the notion of sustainable development also stresses. Second, shareholders are stakeholders whose interests must be considered by managers. This is not only because those interests are protected by law but also because the managers' livelihood is dependent upon how shareholders evaluate their performance. Finally, the other responsibilities depend on the fulfilment of economic responsibilities in the sense that the survival of the company and availability of sufficient resources to devote to other responsibilities depends on such fulfilment.

Another important aspect to consider is that the existence, survival and profitability of a company depend on the fulfilment of legal responsibilities. If a company does not comply with the law either it will be subject to things such as fines, which impair its profitability, or it will be impeded of functioning.

Therefore, CSR, as the subject of analysis of this essay, is seen as an "obligation" to constituent groups in society other than shareholders, which extends beyond that prescribed by law and union contract and is voluntarily adopted (Jones, 1980, pp. 59-60). Thus, although economic and legal responsibilities of companies are part of their social responsibilities, they are not included in corporate social responsibilities as a subject of analysis.

In this essay, CSR is understood as a two-way relationship which involves recognition on the part of "society" both of its significance and of the efforts made by companies to gain "society's" approval of its behaviour. Therefore, CSR relates to society's constituent groups' expectations about corporate behaviour that companies have to identify and try to behave in conformity with.

CSR is the concept used most widely to address the relationships between business and society. However, some concepts, such as corporate sustainability and corporate citizenship, have been proposed recently to conceptualize these relations. Some authors view these three concepts as synonymous (see, for example, Andriof and McIntosh, 2001) whereas others propose some distinctions between them (see, for example, Marrewijk, 2003, for distinctions between CSR and corporate sustainability, and Matten *et al.*, 2003, Matten and Crane, 2005; and Valor, 2005, for distinctions between CSR and corporate citizenship).

In this essay such concepts are considered to address the same basic issues as CSR. They all are about companies' impacts on, relationships with, and responsibilities to, society. These three concepts also integrate the perspectives which have been discussed so far. For example, the definition of corporate citizenship "as the extent to which businesses meet the economic, legal, ethical, and discretionary responsibilities imposed on them by their stakeholders" proposed by Maignan and Ferrell (2000, p. 284) incorporates Carroll's classification of four main corporate social responsibilities and acknowledges the conceptual contributions of stakeholder management literature. CSR is used in a loose sense to embrace similar concepts such as corporate citizenship and corporate sustainability, and integrating elements of stakeholder management.

However, the typology of corporate social responsibilities proposed by Lantos (2001, 2002) is considered to be a useful development of Carroll's model, because it addresses the problem of distinguishing the ethical and philanthropic components that Schwartz and Carroll (2003) stressed, and because it considers the purpose with which companies engage in social responsibility activities. Based on their nature (required versus optional) and purpose (for stakeholders' good, the company's good, or both), Lantos considers three different types of responsibilities (see Table 2.3): ethical, altruistic, and strategic.

Table 2.3: Types of CSR

Carroll's classification	Lantos' corresponding classification
1. Economic responsibilities: be profitable for shareholders, provide good jobs for employees, produce quality products for customers. 2. Legal responsibilities: comply with laws and play by rules of the game. 3. Ethical responsibilities: conduct business morally, doing what is right, just and fair, and avoiding harm. 4. Philanthropic responsibilities: make voluntary contributions to society, giving time and money to good works.	1. Ethical CSR: morally mandatory fulfilment of a company's economic responsibilities, legal responsibilities, and ethical responsibilities. 2. Altruistic CSR: Fulfilment of an organization's philanthropic responsibilities, going beyond preventing possible harm (ethical CSR) to helping alleviate public welfare deficiencies regardless of whether or not this will benefit the business itself. 3. Strategic CSR: fulfilling those philanthropic responsibilities which will benefit the company through positive publicity and goodwill.

Source: Lantos (2002, p. 206).

Ethical responsibilities are regarded as morally mandatory. They involve preventing or rectifying harm or social injuries, even if the company might not appear to have benefited from such endeavours. It is important to note that ethical responsibilities are required even if their fulfilment is detrimental to the company's profitability. From this point of view, companies are considered as "morally responsible to any individuals or groups where it might inflict actual or potential injury (physical, mental, economic, spiritual, and emotional) from a particular course of action. Even when the two parties to a transaction aren't harmed other parties (stakeholders) might be." (Lantos, 2001, p. 606) Thus, managers of a company "do not have an obligation to maximize profits for the shareholders without regard to the means used." (*ibid.*)

Lantos (2001, p. 606) argues that harm cannot always be avoided, but should be minimized where feasible. He offers, as an example, the decision to close or relocate a plant because the product is no longer selling or the source of raw materials has changed. Although it seems sound from a financial point of view, it entails difficulties (wishfully temporary) for some employees and their community. Notwithstanding, if it also implies a more efficient use of resources and therefore benefits society as a whole, "it is the socially responsible thing to do so long as injuries to workers are minimized as much as reasonably possible via means such as advance notification and severance pay." (*ibid.*) Another example is the money spent by a company on product safety or pollution control that might reduce shareholders profit, but have as alternative to threaten unethically the welfare of others in society (*ibid.*).

Altruistic responsibilities involve going beyond ethical responsibilities to address social problems that the company has not caused and regarding which it has no responsibilities for. It can thus be said that altruistic responsibilities involve the assumption of some kind of responsibility for public welfare deficiencies that have not been caused by the company. It involves actions which are not morally mandatory but are beneficial for the company's stakeholders even at "at the possible, probable, or even definite expense of the business." (*op. cit.*, p. 605)

Finally, strategic responsibilities imply engaging in socially responsibility activities only when they are expected to benefit both one or more stakeholder groups and the company. In the case of altruistic responsibilities, the motive is not to reap financial benefits for the company as a consequence of their fulfilment (although that could happen as a by-product). In contrast, with strategic responsibilities, companies contribute to their stakeholders because they believe it is in their best financial interests to do so, thereby fulfilling their responsibilities to the shareholders. Lantos argues altruistic responsibilities are only legitimate when they are strategic: that is, when they also further the objectives of the company.

2.4 Discussion and concluding comments

From the perspective of the author of this essay, rather than offering a definition of CSR it seems more worthwhile to agree on the following five key elements identified by Buchholz (1991, p. 19):

- companies have responsibilities beyond the production of goods and services at a profit;
- these responsibilities involve helping to solve important social problems, especially those they have helped create;
- companies have a broader constituency than shareholders;
- companies have impacts that go beyond simple marketplace transactions;
- companies serve a wider range of human values than can be captured by a sole focus on economic values.

Views on CSR are often distinguished between those who oppose it and those who favour it. It is possible to have within the same perspective those who stand for CSR and those who accept it. Following Jones (1999), the arguments in favour and against social responsibility engagement by companies are summarized in the following two paragraphs.

Arguments against social responsibility are based on the institutional function of companies or on property rights perspectives. The institutional function argument can be held from three perspectives: first, other organizations, such as government, exist to deal with the kind of function requested by social responsible actions; second, managers are not seen as having the abilities and/or time to implement such kind of public actions; finally, unlike politicians, who are democratically elected, managers should not be held accountable for their social responsibility actions. The argument based in the property rights perspective has its roots in neoclassical economic analysis, and maintains that managers' only obligation is to maximize the shareholder value.

Arguments in favour of companies engaging in social responsibility activities can be ethical or instrumental. Ethical arguments are derived from religious principles, philosophical references or prevailing social norms. They suggest that a company should behave in a socially responsible manner because it is morally correct to do so. These arguments have a strong normative flavour. The instrumental arguments in favour of social responsibility rely on calculative assumptions that it will somehow benefit the company as a whole, at least in the long run.

It is possible to distinguish two contrasting cases for CSR: the normative case which searches for motivations in the desire to do good; and the business case which focuses on the notion of enlightened self-interest. Although there is a clear difference between these two perspectives, the reasons for a company engaging in CSR activities might reflect a mixture of the two (Smith, 2003, p. 53).

Maignan and Ralston (2002, p. 498) distinguish three main types of motivations to engage in social responsibility activities. First, following the economic or utilitarian perspective, CSR can be viewed as an additional instrument used by companies to achieve traditional corporate objectives. Second, according to the negative duty view, companies engage in social responsibility activities to conform to stakeholder norms and expectations about how their operations should be conducted, thus constituting mainly a legitimacy instrument used by a company to demonstrate its adherence to such norms and expectations. Third, according to the positive duty approach, companies may be self-motivated to engage in social responsibility initiatives and actively promote social interests, even when they are not expected or demanded by society. As Maignan and Ralston (*ibid.*) state, "both the negative duty and the utilitarian approaches suggest that CSR can be used as an impression management tool employed to influence stakeholders' perceptions of the company."

Whilst the utilitarian arguments can be associated easily with the classical view of social responsibility and the negative-duty arguments with the instrumental use of stakeholder theory, the positive-duty arguments can be associated with the normative use of stakeholder theory and with the activist view of social responsibility. The first two perspectives hold that companies engage in social responsibility activities for strategic reasons. Such motivation is different to the one envisaged by the two latter perspectives.

CSR is understood as a two-way relationship which involves recognition on the part of "society" both of its significance and of the efforts of companies to gain "society's" approval of its behaviour. Therefore, CSR relates to society's constituent groups' expectations about corporate behaviour that companies have to identify and try to conform with. Stakeholders are considered to have three roles: they are the sources of expectations about what constitutes desirable and undesirable company performance, defining the norms for corporate behaviour; they experience the effects of corporate behaviour; and they evaluate the outcomes of companies' behaviours in terms of how they have met expectations and have affected the groups and organizations in their environment (Wood and Jones, 1995, p. 231).

Trying to meet stakeholders' expectations implies the need to consider prevailing social norms and dominant views of corporate responsibilities. There have always been widely spread assumptions about what a modern company should be and how it should behave. Then it becomes important for companies that are expected to (or want to) appear to be modern to incorporate such assumptions into their operations, or at least into their presentations. The growing social awareness about CSR issues has come to place substantial pressures on companies to manage the social and environmental impact of their activities and to become accountable to a wider audience than shareholders. All these aspects have an ethical dimension and it is probably true that, in many cases, engaging in CSR for strategic reasons will have some ethical and moral motivations and will lead to social benefits.

As argued by Post *et al.* (2002), the interdependencies that exist among the company and its stakeholders cannot be described in terms of simple contractual exchanges. Furthermore, it is relationships rather than transactions that are the ultimate sources of a company's wealth and it is the ability to establish and maintain such relationships within its entire network of stakeholders that determines its long-term survival and success. Relationships imply continuity and involve on-going conflict as well as collaborative elements.

Post *et al.* (2002, p. 8) define the stakeholders of a company as the "individuals and constituencies that contribute, either voluntarily or involuntarily, to its wealth-creating capacity and activities, and who are therefore its potential beneficiaries and/or risk bearers." A company's stakeholders are seen as those who supply critical resources, place something of value "at risk," and have sufficient power to affect its performance. For example, company's competitors are not considered as stakeholders when they are competing for resources and markets but may be considered as such when they have common interests and may gain or lose status and wealth as a result of competitors' actions.

The principal means of sustaining and enhancing a company's wealth-creating capacity are the linkages between the company and its multiple constituencies. Because of their linkage with the company, these constituents have a "stake" in its operations. As a result of the companies' operations, they have the possibility either of gaining greater or lesser benefits or experiencing greater or lesser harm. The stakeholders who engage in voluntary relationships with a company and contribute directly to its operations, such as investors, employees, customers, market partners, expect to be better off as a result of the relationship. Involuntary stakeholders, on the other hand, "particularly those who may be negatively affected by externalities such as pollution or congestion, the guiding principle has to be reduction or avoidance or harm and/or the creation of offsetting benefits. These stakeholders expect that they will be at least as well off as they would be if the company did not exist." (Post *et al.*, 2002, p. 22)

Lantos' (2001, p. 600) conception of CSR as good stewardship of society's economic and human resources is a reasonable and particularly appropriate one nowadays. Companies are seen as having an obligation to consider society's long-run needs and wants, which implies that they engage in activities which promote benefits for society and minimize the negative effects of their actions. However, the company should not be prejudiced by engaging in such activities. The mission of a company should not be restricted to the creation of profit for shareholders. Rather, it should be acknowledged as that of identifying opportunities that are beneficial both for the company and for society (Rodriguez *et al.*, 2002, p. 142). Managers are not mere shareholders' agents. They are "builders of stakeholder relations" (*ibid.*).

Chapter 3

Corporate social responsibility and resource-based perspectives

3.1 Introduction

The notion of corporate social responsibility (CSR) is related to ethical and moral issues concerning corporate decision making and behaviour. Knowing if a company should undertake particular activities or refrain from doing so because they are beneficial or harmful to society, is a central question. The controversy is about the responsibilities companies have regarding the social impacts of their activities. Should they undertake actions designed to avoid or repair the negative impact of their operations on society or even to have a beneficial impact by promoting socially desirable ends?

CSR is related to complex issues such as environmental protection, human resources management, health and safety at work, relations with local communities, and relations with suppliers and consumers. The present-day dominant conception of CSR implies that companies voluntarily integrate social and environmental concerns in their operations and interactions with stakeholders. There is the assumption that companies can be trusted to address, on their own, any problems their operations may cause, without being bound by laws and regulations. It is thus necessary to understand what kind of motivations companies have to engage in socially responsible activities.

It is possible to distinguish two contrasting cases for CSR: the normative case, which searches for motivations in the desire to do good; and the business case, which focuses on the notion of enlightened self-interest. The normative case suggests that a company should behave in a socially responsible manner because it is morally correct to do so. The business case can be presented by asking how companies view the possibility of furthering their economic success by paying attention to social responsibility. Although there is a clear difference between these two perspectives, the reasons for a company to engage in CSR activities might reflect a mixture of the two (Smith, 2003, p. 53).

In effect, the personal values of managers and their alignment with CSR values are important aspects to be taken into account. However, it is difficult to believe that they will take decisions which they know will be detrimental to the company's financial performance. Thus this essay focuses on the business case for CSR. Personal values and the ethical and moral aspects which underlie them will not be explored.

Engaging in social responsibility activities involves costs, as it might require, for example, purchasing environmentally friendly equipment, implementing stricter quality controls, or new health, safety and environmental programs. Disclosing social responsibility information also involves costs such as those related to data collection, communication and audit. Since having and presenting an image of social responsibility involves incurring costs, benefits are expected to accrue to sustain business. However, the investments required may not have an immediate pay-off. Whereas the costs involved are usually short-term or continuous outflows, the benefits are often long-term.[1]

Disregarding aspects such as personal values, managers' expectations are that CSR will bring improved financial performance. Two questions then arise: first, does CSR lead to improved financial performance; and, second, if so, what kind of benefits does CSR have that can lead to improved financial performance. After briefly addressing the first question by arguing that social and financial performances should not be presented as trade-offs and high social performance may be considered as both a determinant and a consequence of high financial performance (see, for example, Orlitzky, 2005; Orlitzky *et al.*, 2003; Waddock and Graves, 1997), this essay will focus on the second question.

The influence of financial performance on social performance is easily understood. The former provides the resources required for investments in socially responsible activities. In contrast, the impact of social performance on financial performance is not as clear-cut. This essay discusses some of the mechanisms through which social performance has a positive impact on financial performance and which are considered to be in the minds of managers when deciding whether to adopt socially responsible practices.

McWilliams *et al.* (2006, p. 3) argued that engaging in social responsibility activities when these are expected to benefit the company is a behaviour which can be examined through the lens of the resource-based perspectives (RBP). The argument is that companies generate sustainable competitive advantages by effectively controlling

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1 This important aspect must be considered when analysing the effect of CSR on financial performance empirically. Examining the organizational determinants of corporate sustainability of Canadian companies in the oil and gas, mining, and forestry industries from 1986 to 1995, Bansal (2005) found a negative relation between return on equity and corporate sustainability. She argues that it is unclear whether corporate sustainability causes poor financial performance or companies performing poorly in that aspect are more likely to commit to sustainable development. She suggests that the negative relationship between financial performance and corporate sustainability may be due to the composite nature of corporate sustainability, or it may reflect the short-term costs of investing in it.

and manipulating their resources and capabilities that are valuable, rare, cannot be imitated perfectly, and for which no perfect substitute is available. Engaging in CSR can help companies to create some of these resources and capabilities.

This essay argues that RBP can contribute to analysis of CSR by offering important insights to how it can influence a company's financial performance. It explains why this is so. The contribution which CSR has to financial performance is nowadays primarily related to qualitative factors, such as employee morale or corporate reputation. It is argued that what explains the usefulness of RBP in the study of CSR and disclosure is the emphasis placed on the importance of specific intangible resources, such as reputation, culture, or employees' knowledge, and capabilities, because they are very difficult to imitate and substitute.

The mechanisms through which CSR is considered to assist in creating these resources and capabilities will be discussed. The essay argues that RBP are particularly well placed to analyse the qualitative aspects of the influence of CSR on financial performance and the time lag that often exists between investments in social responsibility activities and the respective pay-offs. On the other hand, because RBP focus on aspects with an undeniable social nature (such as employees' knowledge or corporate reputation), they are well placed to integrate issues emphasized by some important perspectives used in analysing CSR, in particular stakeholder and institutional perspectives.[2] However, to do so RBP have to consider resources and capabilities as "contested terrain". They have to see the company as a social institution involved in relationships that are continuous and with some on-going conflict and some collaborative elements (Moldaschl and Fischer, 2004; Post *et al.*, 2002).

This essay contributes to understanding why CSR has strategic value for companies and how RBP can be used in such endeavour. First, it is necessary to discuss if CSR leads to improved financial performance. This question will be addressed briefly in the second section in which a concise account of what might be understood nowadays by CSR is also given. To discuss why RBP is useful to the analysis of CSR and disclosure it is necessary to define some basic terms and present the RBP. In the third section, a necessarily idiosyncratic account of RBP will be offered, focusing on the works of key authors. Thereafter follow sections addressing some questions about the

2 It is possible to argue that RBP are commensurable with these important perspectives. Several influential articles have resulted from combining these perspectives (see, for example, Bansal, 2005; Hillman and Keim, 2001; Oliver, 1997).

potential of RBP to enhance understanding of CSR practices. In the fourth section, the argument that in order to be used in the analysis of CSR it is necessary to understand resources and capabilities as "contested terrain" is presented. In the fifth section, a review and analysis of the literature which analyses the competitive advantages which arise from CSR is made. Finally, some conclusions will be drawn.

3.2 Corporate social responsibility and financial performance

A much cited definition relates CSR to a company's commitment to contribute to sustainable economic development, working with employees, their families, local communities and society at large to improve the general quality of life (Holme and Watts, 2000, p. 10). This definition has the merit of relating the concepts of CSR and sustainable development. Although the latter concept originally only included environmental issues, more recently it has expanded to simultaneously integrate the consideration of economic growth, environmental protection, and social equity. These two concepts may be considered as being "intrinsically linked" and CSR can be seen as the business contribution to sustainable development (European Commission, 2002, p. 7). Companies are seen as contributing to sustainable development "by managing their operations in such a way as to enhance economic growth and increase competitiveness whilst ensuring environmental protection and promoting social responsibility, including consumer interests." (*ibid.*)

Dyllick and Hockerts (2002, p. 131) transpose the notion of sustainable development to the business level, and define corporate sustainability as "meeting the needs of a company's direct and indirect stakeholders (employees, clients, pressure groups, communities, etc.), without compromising its ability to meet the needs of future stakeholders as well." Corporate sustainability is related usually to the triple bottom line approach in which corporate performance is associated to companies' economic viability, minimization of negative environmental impacts, and action in conformity with social expectations. It would thus be possible to speak about three sustainability pillars at the business level:

- economic sustainability (for example, wealth creation through the goods and services produced);
- environmental sustainability (for example, efficient environmental

management and protection); and

- social sustainability (for example, enhancement of social well being through corporate philanthropy).[3]

All these aspects seem to be present in the definition of CSR proposed by Carroll (1979, 1991). Building on previous definitions of CSR (referring to the responsibility to make a profit, obey the law, and "go beyond" these activities), Carroll argues that CSR encompasses four categories of social responsibilities: economic, legal, ethical, and discretionary (or philanthropic). Economic responsibilities reflect the belief that companies have an obligation to produce goods and services that consumers need and want and to be profitable in the process. Legal responsibilities indicate that companies are expected to pursue economic responsibilities within the confines of written law. Ethical and discretionary responsibilities encompass the more general responsibilities to do what is right and avoid harm. Ethical responsibilities indicate a concern that companies meet society's expectations of business conduct that are not codified into law, but are rather reflected in unwritten standards, norms, and values implicitly derived from society. Companies' responsibilities are volitional or philanthropic in nature, in the sense that they represent voluntary roles assumed by companies for which society's expectations are not as clear-cut as for their ethical responsibilities.

Carroll (1991) argues that these four categories of corporate social responsibilities can be depicted as a pyramid, in which economic responsibilities are considered to be the foundation upon which all other responsibilities are predicated and without which they can not be achieved. Discretionary responsibilities are at the apex.

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3 CSR is the concept used most widely to address the relationships between business and society. However, recently some concepts have been proposed to conceptualize business and society relations, such as corporate sustainability, and corporate citizenship. Some authors propose distinctions between them (see, for example, Van Marrewijk, 2003, for distinctions between CSR and corporate sustainability, and Matten *et al.*, 2003, and Valor, 2005, for distinctions between corporate social responsibility and corporate citizenship). In this essay such concepts are considered to address the same basic issues as CSR, in the sense that they all are about companies' impacts on, relationships with, and responsibilities to, society.

Some authors are uncomfortable with the terms "sustainability reporting" and "sustainability performance" (and inferentially, with "sustainability") as applied to the business level (O'Dwyer and Owen, 2005). They seem to suggest that the terms "sustainability reporting" and "triple bottom line reporting" should not be used inter-changeably on the grounds that sustainability is a global concept that suggests "ecosystem-based approaches that require an understanding of cumulative environmental change" (*op. cit.*, p. 207n). Whereas the so-called "sustainability" reports are organisation-centric, sustainability requires a collective and cumulative assessment of economic activity relative to resources base. It is probably impossible to define what a sustainable company is, and thus it is impossible for a company to report on its sustainability (*ibid.*).

Nonetheless, companies are expected to fulfil these four social responsibilities simultaneously. An important consideration regarding this perspective is that, contrary to the common belief that economic responsibility is related to what companies do for themselves and the other responsibilities are related to what they do for others, "economic viability is something business does for society as well." (Carroll, 1999, p. 284)

A distinctive feature of Carroll's model is that it draws attention to the importance of economic responsibilities as a fundamental concern of managers. In this essay this is considered as an important concern for three reasons. First, the economic responsibilities of companies are also fundamental from a social point of view, as the notion of sustainable development also stresses. Second, shareholders are stakeholders whose interests must be considered by managers. This is not only because those interests are protected by law but also because the managers' livelihood is dependent upon how shareholders evaluate their performance. Finally, the other responsibilities depend on the fulfilment of economic responsibilities in the sense that the survival of the company and availability of sufficient resources to devote to other responsibilities depends on such fulfilment.

Because this essay focuses on the motivations managers might have to engage in CSR, these are important aspects. It is difficult to believe that managers will take decisions which they know will be detrimental to the company's financial performance. Thus, even if managers' personal values are aligned with CSR values it will be very difficult for them to engage in social responsibility activities if they do not see the possibility of furthering financial performance.[4]

Another important aspect is that the existence, survival and profitability of a company depend on the fulfilment of legal responsibilities. If a company does not comply with the law either it will be subject to sanctions such as fines, which impair its profitability, or its functioning will be impeded.

However, as Matten *et al.* (2003, p. 110) argue, the ethical and philanthropical areas of responsibility are central to the study of CSR because of the differentiation they

4 Although this essay does not focuses on the personal values of managers and their alignment with CSR values, these aspects are considered important. Moral reasons can motivate companies (and individuals within them) to engage in social responsibility activities and disclose information about them. Social issues may merit moral consideration of its own apart from their interest to stakeholders and lead managers to consider the social impacts of corporate activities in their decision making. Regardless of any stakeholders' pressures, actions which lead to things such as the conservation of the earth's natural resources or preservation of bio-diversity are morally praiseworthy.

allow between voluntary corporate behaviour and mere compliance. In effect, the CSR debate has focused on these two kinds of responsibilities, giving little attention to economic and legal responsibilities. Therefore, although Carroll's model is accepted in this essay as an important instrument in the analysis of CSR, this term will be used to refer basically to ethical and philanthropic responsibilities of business. CSR is associated with companies' policies and programs that go beyond legal requirements as a response to social and political pressures, norms and expectations.

Recent years have witnessed a change in the CSR debate, from questioning *whether* to make substantial commitments to CSR, to questions of *how* such a commitment should be made (Smith, 2003, p. 55). Several influential authors began to consider the advantages of CSR. They suggest that it allows companies to increase financial performance (see, for example, Porter and Van der Linde, 1995; Porter and Kramer, 1999, 2002; Smith, 1994, 2003). Some authors even argue that decisions regarding CSR should be treated by managers "precisely as they treat all investment decisions" (McWilliams and Siegel, 2001, p. 125) or that "it should be considered as a form of strategic investment" (McWilliams *et al.*, 2006, p. 4).

It is very difficult to conclude whether companies which are perceived as socially responsible out-perform or under-perform companies which are not perceived in the same way. Although there may be some evidence of a positive association (see, for example, Orlitzky *et al.*, 2003; Margolis and Walsh, 2003), assessments are complicated by the imperfect nature of the studies (problems related to the measurement both of CSR and financial performance, criticisms of omission of controls, lack of causality and other methodological problems) (Margolis and Walsh, 2003, p. 278) and the range of qualitative factors which contribute to financial performance (including employee morale, corporate image, reputation, public relations, goodwill and popular opinion) (Lantos, 2001, p. 620).

The relationship between CSR activities and financial performance has been an important topic of debate at least since the 1960's. Surveys of the numerous studies about the relationship between CSR and financial performance that have been undertaken up to the early 1980's, and discussions of the problems with the measurement of corporate social responsibility, were offered by Ullmann (1985) and Aupperle *et al.* (1985). Ullmann (1985) refers to the findings obtained by these studies as indicating "no clear tendency" (*op. cit.*, p. 549). Aupperle *et al.* (1985, p. 460) describe those findings as "varying results", and their tests indicate "no statistically significant relationships” (*op. cit.*, p. 462).

Wood and Jones (1995, p. 261), in their review of the empirical evidence on the relationship between corporate social performance and financial performance, concluded that it was “still ambiguous” and offered several reasons for that: lack of theory; problems with measures of social performance; lack of methodological rigor in many studies; and “confusion about which stakeholders are represented by which measures.” Nonetheless, they stressed an important aspect: the existence of clear evidence that bad social performance is detrimental to a company’s financial performance.

Pava and Krausz’s (1995) review of empirical studies revealed what the authors believed to be an important and unappreciated empirical regularity, which they stated in the following manner: “Nearly all empirical studies to date have concluded that firms which are perceived as having met social responsibility criteria have either outperformed or performed as well as other firms that are not necessarily socially responsible.” (*op. cit.*, p. 322) Their study’s findings suggested that social responsible companies did not performed worse than the other companies and that some evidence suggested a positive relationship between social responsibility and financial performance.

More recent reviews of the empirical CSR literature also indicate a positive correlation between investing in socially responsible activities and financial performance (see, for example, Margolis and Walsh, 2003; Orlitzky *et al.*, 2003). However, Margolis and Walsh (2003, p. 278) suggest that the empirical results, while positive overall, may prove to be illusory given the imperfect nature of the studies (problems related to the measurement both of CSR and financial performance, criticisms of omission of controls, lack of causality and other methodological problems).

For example, McWilliams and Siegel (2000) argue that many empirical studies are flawed econometrically because they do not include important strategic variables that affect performance. When the authors took into account R&D intensity (a variable consistently found to be associated with profitability), CSR was shown to have a neutral effect on profitability. These authors suggest that R&D and corporate social performance are correlated positively, since many aspects of CSR create either a product innovation, or process innovation, or both (*op. cit.*, p. 605).

One of the most important problems to be addressed concerning the relationship between CSR and financial performance is that it is unclear whether social responsibility leads to increased financial performance or whether the latter implies availability of more funds to devote to the former. Waddock and Graves (1997) studied the link between companies' social and financial performance and the direction of the causation, hypothesizing that social performance is both a predictor and consequence of financial performance. They concluded that corporate social performance depends on financial performance and that the sign of the relationship is positive. They interpret their findings as meaning that companies with slack resources potentially available from strong financial performance may have greater freedom to invest in social responsibility activities, and that those investments may result in improved corporate social performance. On the other hand, they also found that financial performance also depends on social performance.

Orlitzky *et al.* (2003) offer the first quantitative meta-analysis of thirty years of studies of the relationship between corporate social performance and financial performance. This study, analysed by Orlitzky (2005), offers further insights to the social performance-financial performance relationship. These authors conclude that social and financial performance should not be presented as trade-offs. Moreover, it is possible to conclude that high social performance is both a determinant and a consequence of high financial performance. The positive impact of social performance on financial performance is understood as being due mainly to reputation, whereas the influence of financial performance on social performance is understood easily as the former providing the resources required for investments in socially responsible activities.

3.3 Resource-based perspectives

Resource-based thinking is present in classic contributions such as those of Adam Smith or Karl Marx. Modern discussion of the RBP probably begins with Penrose who suggested viewing the company as a "pool of resources" (Hodgson, 1998). However, it was only with the contributions to the area of strategic management of more recent authors, such as Barney, Peteraf, Rumelt, Teece, Wernerfelt, that these perspectives have achieved prominence. According to Rugman and Verveke (2002, p. 770) the main contribution of the RBP of strategic management is probably associated with their "ability to bring together several strands of research in economics, industrial organization, organization science, and strategy itself."

The RBP examine the link between a company's internal characteristics and its performance. The differentials in performance are explained primarily by the existence of company-specific resources that are valuable, rare, not easily imitated by rivals and not easily bought or sold on markets. Resources are most difficult to imitate when they are:

- path dependent (resources have a specific history which tends towards companies having highly specialized skills);
- causally ambiguous (the actions needed to create them are not fully known); and
- socially complex (some resources, such as corporate reputation or company culture, are difficult to change on the short-term) (Barney, 1999; Bowman and Ambrosini, 2003).

Differences in theoretical traditions used by RBP entail differences in the terminology used.[5] The use of terms such as "resources", "routines", "competences", "capabilities" and "dynamic capabilities" varies from author to author. For example, the term "routines" has been used by those who adopt an evolutionary economics approach to refer to phenomena that others who adopt other approaches tend to describe as activities (approach based on the structure, conduct, and performance model in industrial organization economics) or business processes (Ray *et al.*, 2004, p. 24). To discuss why they can be useful to the analysis of CSR and disclosure it is necessary to define some of the terms which will be used and give a necessarily simplified vision of the RBP.

Companies are social actors embedded in society. They are responsible for carrying out social activities to provide social members the products or services which will fulfil their needs. These activities are seldom performed by a single company. Thus companies are specialized (social division of labour) and establish relations with each other. They control the resources needed for such activities, build the processes through which resources are used and establish relations with each other and other economic agents, making choices about all these things in terms of their own goals. (Mathews,

5 The RBP can be positioned relative to at least three theoretical traditions: the structure, conduct, and performance model in industrial organization economics; neoclassical microeconomics; and evolutionary economics (Barney, 2001). Other authors distinguish two variants of RBP (Moldalschl and Fischer, 2004): the "structural school", which is oriented toward a neo-classical equilibrium model; and the "process school", which assumes a situation of dynamic markets.

2002, 2003)

Resources are the means through which companies accomplish their activities. They are seen as the "basic constitutive elements out of which firms transform inputs into outputs, or generate services" (Mathews, 2002, p. 32). Resources include the assets that companies use to accomplish the activities they are engaged in to convert inputs into outputs, and can be classified as tangible (physical and financial assets) or intangible (corporate reputation, employee's knowledge, experiences and skills, and their commitment and loyalty).[6]

However, resources are not productive on their own and can only be a source of competitive advantage if they are used by companies to perform their activities. Thus, the analysis also needs to consider a company's "abilities to assemble, integrate, and manage these bundles of resources", i.e. its capabilities (Russo and Fouts, 1997, p. 537).[7] Capabilities are thus seen as referring to the actions through which resources are used and that companies engage in to get something done and accomplish their objectives. Therefore, they refer to a company's capacity to deploy different resources in a coordinated fashion, using organizational processes, to achieve a desired objective. Each company can be seen as a unique bundle of resources and capabilities which is developed over time as the company interacts with all its stakeholders.[8]

Capabilities are the outcome of organizational learning. They belong to the organization as a whole and are built from the learning of individual members or individual business units. Thus, a capability is seen in terms of the company's ability to integrate and extend the learning and experiences of its individual members. (Mathews, 2002, 2003) Capabilities refer to organizational processes, engaged in by people, which must endure over time as people flow in, through and out of the company (Wright *et al.*, 2001, p. 711).

Resources and capabilities are used by companies to develop and implement

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6 Mathews (2003) does not consider the inputs themselves as resources, thereby establishing a fundamental distinction between "the services provided by resources, which enable the firm to accomplish its activities, and the stock of resources themselves" (*op. cit.*, p. 122). In this study the more traditional approach of considering inputs as resources will be adopted.

7 Recent literature on the RBP conceptualizes resources and capabilities along two lines: some authors define resources rather broadly so as to include capabilities (Galbreath, 2005); other authors, clearly distinguish resources and capabilities (Eisenhardt and Martin, 2000; Ethiraj *et al.*, 2005; Helfat and Peteraf, 2003; Makadok, 2001). In this study, the latter conceptualization is adopted.

8 Ray *et al.* (2004) use the terms "resources" and "capabilities" interchangeably to refer to the tangible and intangible assets used by companies to develop and implement their strategies and the term "business processes" (routines or activities) to refer to actions that companies engage in to accomplish some business purpose or objective.

their strategies. Because different companies have different bundles of resources and capabilities, and some of them are difficult or even impossible to imitate, their ability to implement any given strategy will differ. Management's task can be seen as being that of assembling a bundle of resources and developing the capabilities needed to capture as many of the services from these resources as possible (Mathews, 2002).

Adapting Galbreath's (2005) analysis, the following typology can be established:

- tangible resources which include: a) financial assets and b) physical assets;
- intangible resources and capabilities which include: a) intellectual property assets, b) organizational assets, and c) reputational assets.

Intangible resources and capabilities are defined as "non-physical factors that are used to produce goods or provide services, or are otherwise expected to generate future economic benefits for the firm." (*op. cit*., p. 981) They include intellectual property assets, organizational assets and reputational assets.

Intellectual property assets such as copyrights, patents, registered designs and trademarks are afforded legal protection through property rights. Such legal protection can create barriers to competitive duplication (*op. cit*., p. 981).

Organizational assets, such as culture, human resource management policies and organizational structure, can also resist the imitation efforts of competitors, as they represent high levels of asset specificity and time compression diseconomies. These assets are seen as contributing order, stability, and quality to the company. On the other hand, contracts such as franchise or licensing agreements may be important resources for some companies, as they are legally enforceable. Thus, competitors may be prevented from replicating the benefits derived from such agreements (*ibid*.).

Reputational assets, although not legally protected by property rights, are considered to be path dependent assets characterized by high levels of specificity and social complexity, creating a strong resource position barrier. Reputation is built, not bought. It is a nontradeable asset that may be much more difficult to duplicate than tangible assets. As suggested by signalling theory, these assets "can inform external constituents about the trustworthiness, credibility and quality of the firm. Therefore, reputational assets can be key drivers of external constituents positive reactions toward a firm vis-à-vis its competitors, thus positively impacting on firm success." (*op. cit*., pp. 981-982)

Tangible resources, whether physical or financial assets, are easiest to imitate or substitute, even if they are valuable and rare. On the other hand, intangible resources and capabilities are difficult and costly to create because they tend to be historically contextualized, path dependent, socially complex, and causally ambiguous (Barney, 1999). Therefore, it is reasonable to expect that they are more likely to be a source of competitive advantage than tangible resources. Intangible resources and capabilities are accumulated over time and cannot be acquired on tradable factor markets. These aspects make them almost impossible to imitate and contributes to their competitive advantage.

3.4 Resources and capabilities as contested terrain

Conner and Prahalad's (1996, p. 477) assertion that "a knowledge-based view is the essence of the resource-based perspective" is an example of the emphasis which has come to be placed on intangible resources and capabilities. Knowledge-based resources and capabilities refer to the ways in which the more tangible resources are manipulated and transformed to add value. Knowledge is a fundamental resource at work within companies, particularly tacit knowledge, which, unlike explicit knowledge, is contextual and cannot be transferred directly.

However, knowledge is something which must be put to work and intangible assets such as employee knowledge are not easily controlled by management. In effect, it is also fundamental to motivate employees to behave in such a way in order to have positive consequences for the company. In this respect, it is important to address questions such as those related to employee motivation, morale, commitment and loyalty to the company. On the other hand, knowledge is an example of a resource whose origin and development has an undeniable social nature.

These questions relate to some of the weaknesses which have been attributed to the RBP: having an unpolitical view of the company and seeing the company as a monad (Moldaschl and Fischer, 2004). With few exceptions, RBP proponents share an unpolitical view of the company, not viewing resources and capabilities as "contested terrain" (*op. cit*., p. 129). However, intangible assets such as employee knowledge are not easily controlled by management and employees' actions may have either positive or negative consequences for the company. The company should be conceptualized as a "strategic coalition of groups of actors, each with their own interests and with different power." (*op. cit*., p. 141)

One aspect that must be distinguished from the employees' skills, which can be considered as resulting in a company's human capital, is employee behaviour. Employees must be recognized as individuals whose freewill enables them to make decisions regarding the behaviours they engage in. It is employees who own the human capital, not the company. While companies may have access to valuable human capital, its deployment to achieve strategic goals is dependent upon such things as the design of work or the management of people. Even within prescribed organizational roles, employees exhibit discretion that may have either positive or negative consequences to the company. Thus, it is important to obtain and develop human capital with high levels of skills and achieve a good alignment between the skills represented in the company and those required by its strategic needs, through the attraction, development, maintenance, and retention of people. However, it is also fundamental to motivate employees to behave in such a way as to have positive consequences to the company. (Wright *et al.*, 2001) As Moldaschl and Fischer (2004, p. 141) argue "group commitment or cohesion" are important resources which if not explored adequately can turn into "restrictions for management and into resistance and extra costs."

On the other hand, also with few exceptions, within the RBP there is a tendency not to question the role that company's exchange relationships with the environment plays and to conceive the company's environment merely as "a blind selection mechanism, as a source of competitive pressure," disregarding the "institutional rules and resources this environment provides, how firms themselves depend on them and how they can create common resources." (*op. cit.*, p. 129) However, resources such as knowledge and reputation originate "from complex interaction relationships of various social groups, organisations and individuals." (*op. cit.*, p. 130)

One of the most important weaknesses of the RBP is related to the lack of understanding they provide on the influence that the relationships between a company and its environment have on the company's success. Companies are embedded in specific political, social, cultural, legal conditions and rules. Not only do "they pursue their activities in a given system ("market"), they also aim at exerting influence on the conduct of other actors and on the rules of the system; besides, their activities have numerous unintended consequences, i.e. "externalities"." (Moldaschl, 2004, p. 6)

The need to see companies as social actors embedded in society in a resource-based perspective, stems from the view that the intangible resources are key determinants to a company's success. According to Moldaschl and Fischer (2004, p.

137) they “are increasingly produced and provided by society, like human capital and knowledge, and many exist only in a social form.” Notions such as “power”, “trust” and “legitimacy” are crucial in understanding how resources and capabilities such as employees’ skills, corporate cultures and corporate reputation are important in determining a company’s success.

Post *et al.* (2002) argue that the interdependencies existing among the company and its stakeholders cannot be described in terms of simple contractual exchanges. Furthermore, it is relationships rather than transactions that are the ultimate sources of a company’s wealth. It is the ability to establish and maintain such relationships within a company’s entire network of stakeholders that determines its long-term survival and success. Relationships imply continuity and involve on-going conflict as well as collaborative elements.

Post *et al.* (2002, p. 8) define the stakeholders of a company as the “individuals and constituencies that contribute, either voluntarily or involuntarily, to its wealth-creating capacity and activities, and who are therefore its potential beneficiaries and/or risk bearers.” A company’s stakeholders are seen as those who supply critical resources, place something of value “at risk,” and have sufficient power to affect its performance.

The principal means of sustaining and enhancing a company’s wealth-creating capacity are the linkages between the company and its multiple constituencies. Because of their linkage with the company, these constituents have a stake in its operations, in the sense that, as a result of the companies’ operations, they have the possibility either of gaining greater or lesser benefits or experiencing greater or lesser harm. The stakeholders who engage in voluntary relationships with a company and contribute directly to its operations, such as investors, employees, customers, market partners, expect to be better off as a result of the relationship. Regarding involuntary stakeholders, on the other hand, “particularly those who may be negatively affected by externalities such as pollution or congestion, the guiding principle has to be reduction or avoidance or harm and/or the creation of offsetting benefits. These stakeholders expect that they will be at least as well off as they would be if the firm did not exist.” (Post *et al.*, 2002, p. 22)

All of these aspects should not be overlooked and the notion of social capital may be important in attempting to incorporate them in RBP. Nahapiet and Ghoshal (1998, p. 243) defined social capital as “the sum of the actual and potential resources embedded within, available through, and derived from the network of relationships possessed by an individual or social unit. Social capital thus comprises both the network and the assets that may be mobilized through that network." Social capital resides in the structure of relationships between people, which makes it a resource that does not lie with one individual, rather is jointly owned.

Social capital has three dimensions: structural, cognitive, and relational (Nahapiet and Ghoshal, 1998). The structural dimension refers to the organization and configuration of the social network. The relational dimension encompasses such properties as trust, norms, obligations, and identification. The cognitive dimension of social capital refers to the existence of shared representations, interpretations, and systems of meaning among parties.

The notion of social capital refers to the relationships among individuals through which information, influence, and resources flow. It is important because high levels of social capital reduce transaction costs, facilitate communication and cooperation, enhance employee commitment, foster individual learning, strengthen relationships and involvement, and ultimately, enhance a company's performance.

The "social" in the notion of CSR should not be conflated with the social in "social capital". This latter notion is considered important. It stresses relationships with other social agents and how trust, norms, and obligations, on the one hand, and identification, and shared representations, interpretations, and systems of meaning among parties, on the other hand, play a fundamental role in understanding how engaging in CSR may contribute to a company's long-term survival and success.

In effect, CSR is understood as a two-way relationship which involves recognition on the part of "society" both of its significance and of the efforts of companies to gain "society's" approval of its behaviour. Therefore, CSR relates to society's constituent groups' expectations about corporate behaviour that companies have to identify and try to conform with. Stakeholders may be considered to have three roles: they are the sources of expectations about what constitutes desirable and undesirable company performance, defining the norms for corporate behaviour; they experience the effects of corporate behaviour; and they evaluate the outcomes of companies' behaviours in terms of how they have met expectations and have affected the groups and organizations in their environment (Wood and Jones, 1995, p. 231). Corporate social performance refers to "the ability of the firm to meet or exceed stakeholder expectations regarding social issues" (Husted, 2000, p. 27).

Trying to meet or exceed stakeholders' expectations implies the need to consider prevailing social norms and dominant views of corporate responsibilities. There have always been widely spread assumptions about what a modern company should be and how it should behave. Then it becomes important for companies that are expected to (or want to) appear to be modern to incorporate such assumptions into their operations, or at least into their presentations. The growing social awareness about CSR issues has come to place substantial pressures on companies to manage the social and environmental impact of their activities and to become accountable to a wider audience than shareholders.

It is important to note that although managers' personal values and the ethical and moral aspects which underlie them are not explored in this essay, these aspects are fundamental in analysing stakeholders' expectations about corporate behaviour. Identifying and trying to behave in conformity with such expectations implies the need to consider prevailing social norms and dominant views of corporate responsibilities. All these aspects have an ethical dimension. It is probably true that in many cases engaging in CSR for strategic reasons will have some ethical and moral motivations and will lead to social benefits. It is probably correct to assume that social capital has an ethical dimension.

3.5 Corporate social responsibility and competitive advantage

Some of the main contributors to the resource-based literature in the strategic management field have acknowledged business ethics and CSR as areas of study with important implications (Barney *et al.*, 2001).

The number of studies devoted to CSR which adopt a resource-based view (albeit, in many cases, combining it with other theoretical perspectives) has grown in recent years. This tendency began with a focus on environmental aspects (see, for example, Hart, 1995; Russo and Fouts, 1997, Sharma and Vredenburg, 1998), but has extended subsequently to more general issues of CSR (see, for example, Bansal, 2005; Hillman and Keim, 2001). Corporate social disclosure has not escaped this tendency, as evidenced by analyses which focus on environmental disclosure (for example, Toms, 2002; Hasseldine *et al.*, 2005).

RBP contribute to analysis of CSR by offering important insights to how CSR can influence a company's financial performance. These perspectives have two important characteristics which make them useful for such endeavour: first, they focus on performance as the key outcome variable; second, they recognize the importance of intangible resources such as know-how, corporate culture and reputation explicitly (Russo and Fouts, 1997, p. 535). In effect, the application of resource-based rationales to CSR and disclosure can be justified by several reasons (Bansal, 2005, p. 200): it influences a company's financial performance; it requires investments of financial and/or human resources; and it creates new resource-based opportunities through changes in technology, legislation, and market forces.

Orlitzky *et al.*'s (2003) discussion of the relationship between corporate social performance and financial performance, grounded on RBP, is of particular importance because it provides a good summary of the underlying arguments and addresses how social responsibility disclosure may be more or less important. These authors argue that CSR provides internal or external benefits, or both, and that social responsibility disclosure may have different value if the analysis focuses on one type of benefits or the other.

3.5.1 Internal benefits of corporate social responsibility

Investments in socially responsible activities may have internal benefits by helping a company to develop new resources and capabilities which are related to know-how and corporate culture. These resources and capabilities, acquired internally, would then lead to more efficient use of resources. Regarding some of these internal benefits, whether the behaviours and outcomes are disclosed to outside constituents is largely irrelevant to the development of internal resources and capabilities and organizational efficiency (Orlitzky *et al.*, 2003).

The RBP suggest that companies generate sustainable competitive advantages. They do this by effectively controlling and manipulating their resources and/or capabilities that are valuable, rare, cannot be perfectly imitated, and for which no perfect substitute is available. Human resource activities, including those that improve employee attitudes on workplace quality, are seen as fulfilling these four characteristics (Fulmer *et al.*, 2003; Ballou *et al.*, 2003; Wright *et al.*, 2001). Human resource activities assist in creating a competitive advantage by developing a skilled workforce that effectively carries out the company's business strategy, leading to improved financial performance.

Effective human resource management can cut costs and enhance employees' productivity. In effect, CSR can have positive effects on employees' motivation and morale as well as on their commitment and loyalty to the company. Socially responsible employment practices such as fair wages, a clean and safe working environment, training opportunities, health and education benefits for workers and their families, provision of childcare facilities, flexible work hours and job sharing, can bring direct benefits to a company by increase morale and productivity while reducing absenteeism and staff turnover. As well as productivity benefits, companies also save on costs for recruitment and training of new employees.

Empirical research shows that a company's social responsibility actions matter to its employees (Albinger and Freeman, 2000; Backhaus *et al.*, 2002; Greening and Turban, 2000; Peterson, 2004; Turban and Greening, 1997). Companies perceived to have a strong social responsibility commitment often have an increased ability to attract better job applicants, retain them once hired, and maintain employee morale. This leads to reduced turnover, recruitment, and training costs.

Several studies have attempted to analyse the relationship between company performance and employee attitudes on workplace quality. Particularly relevant is the research grounded on RBP, such as that of Fulmer *et al.* (2003) and Ballou *et al.* (2003). Both these studies use *Fortune*'s annual list of "The 100 Best Firms to Work for in America" as a proxy for the existence of positive employee attitudes regarding workplace quality. They present results suggesting workplace attitude is a source of competitive advantage that leads to a valuable intangible asset which contributes to the enhancement of financial performance. These studies provide evidence consistent with the prediction that human resource activities can be a source of competitive advantage and result in improved financial performance.

In addition to allowing companies to attract and retain workers, improved social performance, through its environmental component, leads to more efficient processes, improvements in productivity, lower costs of compliance and new market opportunities (Goldstein, 2002; Hart, 1995; Howard-Grenville and Hoffman, 2003; King and Lennox, 2002; Klassen and Whybark, 1999; Porter and Van der Linde, 1995; Russo and Fouts, 1997; Thorpe and Prakash-Mani, 2003; Wagner and Schaltegger, 2003).

Pollution prevention and the associated reorganization of production processes, material flows and supplier relationships, create opportunities for the company to alter production strategically (for example, to reuse/recycle raw material, substitute less environmentally harmful materials, etc.). They translate innovation into competitive advantage, for example through higher productivity of capital and/or labour (for example, reducing waste volumes can reduce the need for labour and machines that handle waste). On the other hand, improved environmental performance may bring savings associated with the use of less energy and materials and having lower pollution costs in the form of charges for waste handling and disposal, fees, licences and fines for breaking environmental regulations. Because it fosters some important management competencies, such as those related to problem solving, discovering sources of inefficiency and incentive employees' participation, improving environmental management competencies may also lead to better management in general.

Besides benefits associated with the reorganization of production processes, environmental process improvements can lead directly to increased revenues. Improving environmental impacts during production include innovating and developing new processes, viewing 'waste' as a potentially saleable by-product, and making existing products more attractive to concerned customers. Being recognized as a social responsible company, for example through certification by ISO 14001 for environmental management systems, can be important for entering some markets in developed countries or achieving premium prices.

Hart (1995) and Russo and Fouts (1997) were pioneers in exploring the application of the RBP to CSR issues. They used it to study the relationship between environmental performance and financial performance. Hart (1995) applied the resource-based view of the company to the domain of corporate environmental strategies. He identifies the sources which contribute to environmental performance and may simultaneously improve industrial performance. Those include strategies for pollution prevention and for minimizing the environmental impact of product systems. Quality management systems for pollution prevention (minimization of emissions, effluents and waste) usually lead to overall cost reduction and savings in resources due to technological improvements. Life-cycle analysis at the product-design stage and supplier selection systems to pre-empt competition allow companies to differentiate products and thereby increase customer value.

Russo and Fouts (1997) argue that companies which assume a proactive environmental policy often redesign their production or delivery processes and physical resources to enhance internal methods for waste reduction and operational efficiency. A company may enjoy a competitive advantage so long as the new processes are unique to the company and provide an opportunity to outperform competitors. On the other hand, improved environmental performance also requires a fundamental shift in a company's culture and human resources and the organizational capabilities required to manage them. These authors contend that a prevention policy builds the resources of organizational commitment and learning, cross-functional integration, and increased employee skills and participation within the company. This atmosphere leads to increased productivity by attracting high skilled workers with superior management strategy. Finally, they suggest that reputation effects and the ability to influence public policy by "raising the bar" for compliance standards, enhances the competitive advantage of environmentally proactive companies. They analysed a sample of 243 companies over two years, using environmental ratings developed independently. Their findings suggest that "it pays to be green" and that this relationship strengthens with industry growth. However, Klassen and Whybark (1999), also adopted a resource-based perspective, and found that pollution prevention was related positively to manufacturing performance, while pollution control was related negatively.

3.5.2 External benefits of corporate social responsibility

The external benefits of CSR are related to its effect on corporate reputation. Companies with a good social responsibility reputation improve relations with external actors such as customers, investors, bankers, suppliers and competitors. They also attract better employees or increase current employees' motivation, morale, commitment and loyalty to the company. This, in turn, improves financial outcomes. Disclosure of information about a company's behaviours and outcomes regarding social responsibility usually helps in building a positive image with stakeholders. (Orlitzky *et al.*, 2003)

As Roberts and Dowling (2002, p. 1078) point out, corporate reputation "is a general organizational attribute that reflects the extent to which external stakeholders see the company as 'good' and not 'bad'." It has been identified as one of the most important intangible resources that provide a company sustainable competitive advantage. Several studies have found a positive relationship between a company's reputation and its financial performance (Fombrun and Shanley, 1990; Roberts and Dowling, 2002).

Corporate reputation is a difficult resource to create. Roberts and Dowling (2002, p. 1091) argue that "the development of a good reputation takes considerable time, and depends on a company making stable and consistent investments over time." However, as with any valuable resource, it is the difficulty to create, trade, or imitate that explains the strategic value it has for the company.

Fombrun and Shanley (1990) view corporate reputation as resulting from a process in which companies compete for social status in a market characterized by incomplete information by signalling their key characteristics to stakeholders in order to maximize their reputation. However, a company's reputation is determined not only by the signals received directly from the company but also from other sources, such as the media or the stock market. A company's stakeholders are assumed to respond to market and accounting signals representing corporate performance, institutional signals about its visibility and socially responsibility, and strategy signals related to corporate postures such as differentiation and diversification. For these authors, corporate reputation reflects a company's "relative success in fulfilling the expectations of multiple stakeholders" (*op. cit.*, p. 235). Stakeholders are seen as having different expectations. Thus, they use different economic and non-economic criteria to evaluate a company's performance. Reputational assessments are determined by the congruence between a company's behaviours and the expectations and preferences of stakeholders.

According to Fombrun *et al.* (2000), companies obtain benefits from CSR and disclosure because it helps them and their employees to build community ties and become socially integrated. It also assists companies to build reputational capital, thereby improving their ability to negotiate more attractive contracts with suppliers and governments, to charge premium prices for goods and services offered, and to reduce its cost of capital. CSR and disclosure not only generates reputational gains that improve a company's ability to attract resources, enhance its performance, and build competitive advantage, but also mitigates the risk of reputational losses that can result from alienating key stakeholders (*ibid.*).

By demonstrating that they operate in accord with social and ethical criteria, companies can build reputation, whereas failing to do so can be a source of reputational risk. Reputational capital depends on stakeholder support. It is created when a company obtains support from its stakeholders: employee commitment, customer loyalty, attractiveness to investors, collaboration of partners, favourable regulation, endorsements from activist groups, legitimacy from the community, and favourable coverage from the media. On the other hand, it is destroyed when stakeholders withdraw their support: threats of rogue behaviour from employees, of misunderstanding from customers, of exposure from the media, of defection from partners, of legal action from regulators, of boycott from activists, of illegitimacy from the community, and threats to value from investors (*ibid.)*.

CSR has two forms for contributing to the enhancement of a company's financial performance: a positive impact as a reward for positive behaviour and a mitigation of consequences from negative behaviours. Fombrun *et al.* (2000) categorized these as "opportunities" and "safety nets".[9]

Consumer pressure is an important incentive for companies to assume a social responsible image. Consumers are often drawn to companies which present a good reputation in social responsibility issues. For example, companies profit by recognizing and meeting demand for environmentally friendly products, either by introducing new products or by publicizing production process-related environmental improvements. On the other hand, companies can avoid negative reactions such as the boycott of their products. A classic example is the Shell Company whose handling of the Brent Spar affair led to widespread consumer boycotts, and whose operations in Nigeria have been criticised widely.

For Bhattacharya and Sen (2004, p. 11), CSR initiatives "are an innovative and less-imitable means of strengthening customer relationships." These authors discovered that a positive link between CSR and purchase behaviour only exists when several conditions are satisfied: when the consumer supports the issue central to the company's social responsibility efforts, when there is a high company to issue/cause fit, when the product is of high quality, and when the consumer is not asked to pay a premium for social responsibility (*op. cit.*, p. 18). One important aspect of their findings is that consumers are more sensitive to "irresponsible" than to "responsible" corporate behaviour. Since consumers are more sensitive to negative information than to positive information, managers need to be aware of the risks of being perceived as socially irresponsible.

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9 Williams and Barrett (2000) find that charitable giving reduces the negative effect of the violation of occupational health and safety and environmental regulations on company reputation. They argue that "charitable giving appears to be a means by which companies may partially restore their good name following the commission of illegal acts." (*ibid.*, p. 348)
Another aspect of the contribution of CSR and disclosure to the company's financial performance is well depicted in the example given by Hess *et al.* (2002, p. 113-114) of how a good reputation can be an asset in times of crisis: during the 1992 South Central Los Angeles riots, McDonald's "efforts in developing community relations through its Ronald McDonald Houses and its involvement in developing employee opportunities gave the firm such a strong reputation, McDonald's executives stated, that rioters refused to harm their outlets. While vandalism caused tremendous damage to businesses in the area, all 60 of McDonald's franchises were spared harm."

Regarding the importance of corporate reputation for customers, another important aspect pertains to problems regarding evaluation of the quality of a product. Some products must be used or consumed before their value to the consumer can be determined. When this is the case consumers have to make use of other signals, like the reputation of the company. McWilliams and Siegel (2001) advanced the hypothesis that companies selling these kinds of products are more likely to engage in CSR than companies providing products which can be evaluated prior to search. CSR is viewed as a form of product differentiation, because it creates a reputation that the company is reliable and honest and consumers believe that a company with these characteristics will produce higher quality products (*ibid.*). These authors give food as an example, but services are probably the best example of such products. In effect, some service industries possess characteristics which make CSR activities and disclosure particularly important in signalling the trustworthiness of the company, such as the complex character of the product, the importance of the product (not suitable for trial and error strategies), the long-term relationship and the dependency on the service provider.

A company regarded as socially responsible can also benefit from its reputation within the business community by having increased ability to attract capital and trading partners. Some authors argue that involvement in corporate social initiatives can even increase stock value. They point to the ability to attract new investors and reduce exposure to risk in the event of corporate or management crises. For example, Klassen and McLaughlin (1996) found that public announcements of environmental awards had a positive impact on the market valuation of companies and that significant negative impacts immediately followed environmental crises, such as oil-spills. There is also evidence that companies with better environmental records are more attractive investments due to the lower perceived compliance costs and liabilities (Konar and Cohen, 2001) and that companies perceived as being environmental legitimate incur less unsystematic market risk than their counterparts (Bansal and Clelland, 2004).

However, some aspects which qualify the relation between corporate reputation and financial performance must be considered. Brammer and Pavelin (2004a) criticize the idea that the benefits (or costs) of corporate social performance apply to all types of social performance. They argue that the reputational payoffs of engaging in socially responsible activities are contingent upon the fitness of such activities with certain company characteristics. They contend that the nature and strength of the links between companies' reputations and their social performances depend upon company characteristics that influence the expectations of stakeholders about the behaviours of particular companies.

For example, the environmental performance dimension of social performance is considered by Brammer and Pavelin (2004a) to be more important in environmentally visible sectors, and thus good environmental performance is expected to be associated more strongly with corporate reputation in such sectors. In contrast, in other sectors, the implementation of environmental management and reporting systems may produce negligible benefits by way of improved relationships with stakeholders who value environmental issues. In such cases, the costs associated with improved environmental performance may impair financial performance rather than enhance it, making the task of fulfilling creditors' and shareholders' expectations more difficult. Thus, in situations such as these, improved environmental performance is expected to be detrimental to a company's reputation. In conclusion, socially responsible activities "perceived to bear little or no relation to a firm's activities may be thought of as wasteful managerial excess, and so harm reputation, whereas examples perceived as relevant are more favourably viewed." (*op. cit*., p. 707)

Another interesting analysis is that of Hillman and Keim (2001). Using a theoretical framework based on stakeholder management and a resource-based view of the company, these authors argue that in analysing the relationship between social performance and financial performance it is useful to distinguish between two components of corporate social performance: stakeholder management and social issue participation. They believe that these two components of social performance have opposing relationships to financial performance. Building good relations with primary stakeholders is susceptible of leading to increased financial returns because it assists companies in developing valuable intangible assets (resources and capabilities) which can be sources of competitive advantage because such assets can differentiate a company from its competitors. On the other hand, pursuing social issues that are not associated directly to the relationship with primary stakeholders may not create such advantages, because participating in social issues is something which can be copied easily by competitors. Thus, one can infer that social responsibility activities can pay off, as long as they are in the interest of the company's primary stakeholders. Hillman and Keim (2001) conclude that whereas stakeholder management can lead to shareholder wealth creation, participation in social issues can not be said to have the same kind of result.

3.5.3 The importance of social responsibility disclosure

Teece *et al.* (1997, p. 521) see corporate reputations as shaping the responses of external actors, because they summarize a good deal of information about a company's current position and behaviour and also its probable future behaviour. These authors contend that external actors' responses are based on what they know rather than what is knowable about a company. Because asymmetry exists between what is known inside and outside the company, reputations are sometimes more important than the true state of affairs in shaping responses of external actors. Social responsibility disclosures are used by companies as one of the informational signals upon which stakeholders base their assessments of corporate reputation under conditions of incomplete information.

Social responsibility disclosure is particularly important in enhancing the effects of CSR on corporate reputation. Hooghiemstra (2000) argues that social responsibility disclosure is a communication instrument that companies use to create, protect or enhance image or reputation. It can assist a company in the creation of a competitive advantage because "creating a positive image may imply that people are to a great extent prepared to do business with the firm and buy its products." (*op. cit.*, p. 64) It can be analysed as "a public relations vehicle", which is "aimed at influencing people's perceptions about the firm." (*op. cit.*, p. 57)

The RBP can be extended to consider the role of social responsibility disclosure as a signal of improved social and environmental conduct and hence reputation in those fields because disclosure influences the external perception of reputation. It will be difficult for companies which invest in social responsibility activities to create positive reputation to realise the value of such reputation without making associated disclosures. (Hasseldine *et al.*, 2005; Toms, 2002)

Toms (2002) was one of the first authors to apply RBP to social responsibility disclosure. He was followed by Hasseldine *et al.* (2005), who concentrate on what managers are doing to create heterogeneous resources to sustain competitive advantage in the form of enhanced reputation, rather than on what they are trying to avoid (for example, political costs) (*op. cit.*, p. 233).

Toms (2002) used a sample of large listed UK companies included in the UK survey of "Most Admired Companies" for 1996 or 1997. His empirical tests suggested a positive relationship between disclosure strategy and environmental reputation, with mediating variables such as company size, industry grouping, systematic risk, and diverse institutional share ownership also promoting environmental reputation. The implementation, monitoring and disclosure of environmental policies and their disclosure in annual reports were found to contribute significantly to the creation of environmental reputation. Toms also suggested that companies can improve reputation through making disclosures *per se*, which could reflect the high level of adoption of voluntary environmental disclosures amongst large UK companies, to the extent that investors now regard them as a norm. Prior financial performance was found to have no impact and there is no evidence that environmental reputation is created by a financial halo effect or by the availability of slack financial resources.

Complementing and extending Toms (2002), Hasseldine *et al.* (2005) suggest that the qualitative nature of environmental disclosure, as opposed to mere volume, is more likely to enhance the environmental reputation of the company. These authors' results, using more recent data, confirm Toms's (2002) results and also suggest that quality of environmental disclosure (rather than mere quantity) has a stronger effect on the creation of environmental reputation amongst executive and investor stakeholder groups. Research and development expenditures, and diversification, under certain circumstances, were also found to add to reputation.

3.6 Discussion and concluding comments

One reason why CSR might be related to financial performance is that many companies plan their charitable contributions to reduce their taxable income, and save costs. Furthermore, in some cases, contributions are coupled to financial performance because many companies use a fixed percentage of pretax net income to decide how much to give to charity. However, it is important to recognize that the nature of corporate philanthropy has changed. Nowadays philanthropy involves employee involvement, which indicates the increasingly cooperative nature of corporate philanthropic programs. The fact that such programs are not "tax deductible" in most cases indicates that companies are not running these programs to receive tax deductions.

Hess *et al.* (2002) call these kinds of programs "corporate social initiatives". They describe the changing nature of corporate philanthropy and the fact that these non-deductible factors are becoming increasingly important to corporate CEOs, employees, and external stakeholders. These authors suggest that this shift can be explained in part by the "new moral marketplace factor", which is associated with an increased importance of perceived corporate morality in choices made by consumers, investors, and employees. Examples of marketplace morality include "investors choosing socially screened investment funds, consumers boycotting Shell Oil because of its decision to sink the Brent Spar oil rig, and employees' desires to work for socially responsible firms." (*op. cit.*, p. 114) They refer to a competitive advantage factor which is associated with "new, hard-to-imitate, less-tangible sources of competitive advantage", of which corporate reputation is the best example (*ibid.*).

This change in CSR practices is related to the acknowledgement that the benefits of CSR and disclosure include those associated with some kind of competitive advantage. There are many cases in which CSR activities are explained by straightforward efforts to enhance sales. In effect, CSR may increase sales and profits by promoting a company's products and services. Because consumers often prefer companies that are (or are seen to be) socially responsible, it is likely that social responsibility and disclosure can also be helpful in preserving old clientele or building up a new one.

However, there are many other cases in which such direct association is impossible to establish, but in which it is undoubtedly the creation of things such as organizational commitment or a publicly favourable corporate reputation that appear as likely reasons to engage in CSR. Nonetheless, a company which engages in CSR activities and appears to receive no financial benefits could be said to be engaging in a purely "philanthropic" activity. However, in most cases some benefit is obtained in a roundabout way, such as public approval of its image as a responsible citizen. As McWilliams *et al.* (2006, p. 4) put it "even when it is not directly tied to a product feature or production process, CSR can be viewed as a form of reputation building or maintenance."

Nowadays the influence of social responsibility on financial performance is usually understood through the analysis of fundamental intangible resources such as know-how, corporate culture and reputation. Company performance can be argued to be dependent upon the know-how of its employees and managers and also on how individuals and groups of individuals interact within the company. It also depends on the ability to build and maintain external relationships which are critical for the company and largely consist of a "collective", company-wide application of know-how by a variety of employees and managers – something essential for competitive success. Thus, the focus should be on relational rather than transactional interactions because the latter "can be easily duplicated and thus offer little potential for competitive advantage" (Hillman and Keim, 2001, p. 127).

A company can only obtain benefits from building a reputation for social responsibility if the community also considers social responsibilities important. There is thus the need to exist social responsibility values which are shared to some extent by consumers, investors, employees and other social actors, and considered in their decision making. For example, CSR can help in attracting and retaining good employees and lead to higher organizational commitment on their part if they believe in the importance of the social responsibilities of businesses. Even when analysing manager's motivations from an economic perspective it is crucial to understand companies as being embedded in specific political, social, cultural, legal conditions and rules.

The commensurability of stakeholder theory, institutional perspectives, such as legitimacy theory, and RBP should be emphasised. RBP and legitimacy theory both can be conceived as subsidiary perspectives of the stakeholder meta-narrative. Following Campbell *et al.* (2003, p. 559), legitimacy theory is conceived as "a subsidiary theory of the stakeholder metanarrative in that a number of constituencies are recognized" that "takes a more descriptive view of how a company addresses and deals with those constituencies." The same can be said of RBP when applied to CSR analysis.

Both these perspectives can be explored by using stakeholder theory. On the other hand, organisational legitimacy and organisational reputation are considered to have similar antecedents, social construction processes and consequences (Deephouse and Carter, 2005). In effect, they share the notion of companies' activities meeting social expectations of appropriateness. Deephouse and Carter (2005, p. 332) distinguish the two concepts: whereas legitimacy is the social acceptance which results from adherence to regulative, normative or cognitive norms and expectations, in contrast reputation is considered a social comparison among companies on a variety of attributes, which could include these same regulative, normative or cognitive dimensions.

Two fundamental aspects related to the impact of CSR on financial performance should be highlighted. First, corporate reputation is understood as a fundamental intangible resource which is created or depleted as a consequence of the decisions to engage or disengage in social responsibility activities and disclosure. Second, investing in social responsibility activities and disclosure also has important consequences on the creation or depletion of other fundamental intangible resources, namely those associated with employees.

Companies with good social responsibility reputation improve relations with external actors such as customers, investors, bankers, suppliers and competitors. They also attract better employees or increase current employees' motivation and morale as well as their commitment and loyalty to the company, which in turn improves financial outcomes. Disclosure of information about a company's behaviour and outcomes regarding social responsibility helps to build a positive image with stakeholders. These are the external benefits of CSR.

However, CSR also has internal benefits. The implementation of corporate social responsibility initiatives can lead to decreased operating costs and increased revenue from grants and incentives. Companies who adopt environmental initiatives to reduce waste, reuse materials, recycle, and conserve water and electricity, frequently obtain grants and incentives for such initiatives. They also have benefits related to material efficiency and energy and waste minimization. On the other hand, because it fosters some important management competencies, such as those related to problem solving and discovering sources of inefficiency, social responsibility management competencies also lead to better management in general. This latter benefit is probably the most important because it is the most difficult to imitate and has the potential to deliver long-term benefits.

Investing in social responsibility activities has important consequences on the creation or depletion of fundamental intangible resources and capabilities, for example those associated with employees and managers. In effect, it may have internal benefits by helping a company to develop new resources and capabilities related to know-how and corporate culture. These resources and capabilities, which are acquired internally, would then lead to more efficient use of resources. Regarding some of these internal benefits, whether the behaviours and outcomes are disclosed to outside constituents is largely irrelevant to the development of internal resources and capabilities and organizational efficiency.

Nonetheless, the reasons for companies engaging in corporate social responsibility related to their human resources are precisely those regarding which the separation between internal and external factors is more difficult. A good reputation can help attract better job applicants, retain them once hired, and maintain employee morale. Thus disclosure of information about a company's behaviours and outcomes regarding social responsibility helps to build a positive image with employees.

To the extent that employees' perceptions of corporate reputation are related to their work attitudes and/or behaviours, a company's reputation can improve performance. Riordan *et al.* (1997) suggest that employees' reactions to the company's actions will often be based on the image of the organization held by external groups. Actions of the company which lead to positive/negative reactions from external stakeholders can have direct, positive/negative effects on the company's employees. Employees' estimates of the reactions of external stakeholders to the company in which they work, influence their job satisfaction and their intentions to leave the organization. If the employee views the company to have a poor reputation, a lower job satisfaction and a higher probability of leaving will ensue (*ibid.*).

It is interesting to note that, as Post (2003, p. 31) points out, employees (and almost to the same extent managers) have a greater stake in the success of a corporation than investor owners, because their jobs and economic livelihood are at stake. In the modern world, employees (and managers) cannot easily switch their jobs and do not have diversified portfolios of job interests, whereas investor owners usually hold a diversified portfolio of stocks and the ability to easily sell poorly performing stocks. There are good reasons for so many managers focusing on the interests of shareholders. Shareholders are stakeholders whose interests must be considered by managers, not only because they are protected by law but also because the managers' livelihood is dependent upon how these agents evaluate their performance.

However, because resources and capabilities associated with employees are crucial for the success of the company, in many companies stakeholder management is nowadays as important as shareholder management. From the point of view of the company it is important to ensure commitment and loyalty from employees, not only to prevent good employees from leaving the company, but also to ensure that they do not behave in such a way as to have negative consequences for the company in cases when employees are compelled to remain employed by the company.

To conclude, RBP are considered as a useful starting point in the analysis of CSR. They emphasize the importance of intangible resources and capabilities and consider them to be the most important sources of company success. Intangible resources and capabilities are created and enhanced or depleted to a great extent through relationships with stakeholders and these are fundamental sources of a company's wealth. A company's long-term survival and success is thus determined by the ability to establish and maintain such relationships. RBP offer important contributions to understanding the mechanisms through which stakeholder management translates into positive impacts on financial performance. When deciding to engage in CSR activity managers most likely have in mind the possible benefits which are underlined by RBP.

Chapter 4

Issues in social responsibility disclosure research: an overview

4.1 Introductory remarks

The acknowledgement of corporate social responsibility (CSR) (Branco and Rodrigues, 2006b) implies the need to recognize the importance of disclosure of information on companies' activities related to such responsibility. The concept of social accountability, which only arises if a company has social responsibility (Gray *et al.*, 1996, p. 56), concerns both the responsibility to undertake particular actions or refrain from doing so and provide an account of such actions (*op. cit.*, p. 38). In the early 1970's, Bauer and Fenn (1973, p. 37) considered that if society believes that companies should broaden their function to include social responsibility, such belief should be demonstrated by requiring some kind of accounting about companies' performance in non-economic areas.

Although other terms, such as corporate social reporting, social and environmental accounting or simply social accounting, may be used to describe this accounting about companies' performance in non-economic areas, the term social responsibility disclosure (SRD) will be the one used in this essay. SRD has been broadly defined as the "process of communicating the social and environmental effects of organisations' economic actions to particular interest groups within society and to society at large." (Gray *et al.*, 1996, p. 3) Thus, it seeks to reflect several social and environmental aspects upon which companies' activities has an impact: employee related issues, community involvement, environmental concerns, other ethical issues, etc. SRD refers to the disclosure of information about companies' interactions with society.

SRD is not a new phenomenon. SRD in corporate reports can be traced to the beginning of the twentieth century (see, for example, Guthrie and Parker, 1989; Maltby, 2004, 2005). However, it is possible to consider that it has emerged as an important subject only in the 1960's (Epstein, 2004). Following a period of decline in the 1980's, there has been a resurgence of social disclosure and auditing. This resurgence was associated initially with the prominence of corporate environmental disclosure. This is a more recent phenomenon that emerged mainly in Europe and the USA in the 1990's. More recently, the prominence of SRD seems to be related to sustainability reporting, which addresses simultaneously the economic, environmental and social dimensions of corporate performance. Nowadays SRD provides a means of addressing the pressure faced by companies in demonstrating the sustainability of their business.

A global picture of corporate SRD trends over the last ten years is provided by the series of KPMG surveys initiated in 1993 and published every three years since then. The last of these surveys, the "KPMG International Survey of Corporate Responsibility Reporting 2005" (KPMG, 2005) analyzes more than 1,600 of the world's largest companies, by selecting the top 250 from the Global Fortune 500 (G250) and the top 100 companies in 16 industrialized nations (N100). According to this last survey, CSR reporting has been rising steadily since 1993. In 2005, 52 percent of G250 and 33 percent of N100 companies issued separate corporate responsibility reports, compared with 45 percent and 23 percent, respectively, in 2002. If annual financial reports with corporate responsibility information are included, these percentages are even higher: 64 percent (G250) and 41 percent (N100). A noticeable point is the change that occurred in the type of disclosure: from purely environmental reporting up until 1999, to sustainability (social, environmental and economic) reporting. Sustainability reporting has now become mainstream among G250 companies (68 percent) and is fast becoming so among N100 companies (48 percent).

The developments in SRD practices and the difficulty in interpreting and explaining why companies engage in such practices has been accompanied by developments in SRD research which entailed a burgeoning of methods to analyse these practices and of theoretical perspectives to explain them. It is increasingly difficult to be acquainted with all these methods and theories. However, it is possible to identify some contentious issues in three main areas of SRD research: the definition and characteristics of SRD; the methodologies used to capture empirical data on SRD; and how to theoretically interpret the trends of SRD.

This essay provides a document to serve those who wish to do research in the SRD area. First, it offers a brief overview of the issues mentioned above in which they are identified and some clues to understand what is at stake are given. Second, this essay is also useful as a source of reference for those interested in doing research in the area as it mentions a fairly thorough and up-to-date list of SRD studies.

In the following section, the question of what is meant by SRD is explored. Thereafter follow sections on the issues pertaining to methodological aspects of SRD research and the main theoretical frameworks used. Finally, some concluding remarks will be offered.

4.2 Issues of definition

There are two different approaches in SRD research (Boyce, 2000; Gray *et al.*, 1995a; Hibbit, 2004). A first strand of research holds that SRD should be made in money terms, and is considered as a branch of conventional accounting. SRD refers to the provision of information about the social costs and benefits associated with companies' activities. These require the quantification in financial terms of the social and environmental impacts of companies' activities. Social costs and environmental externalities are considered to be susceptible to valuation and disclosure as part of present market based systems and conventional accounting systems need only some adaptations to incorporate these factors. According to such an approach, monetary information is considered to be an essential ingredient in economic and financial decision making. The latter should also consider the social and environmental aspects of a company's activities.

A second strand of research considers SRD as an essential aspect of the dialog between business and society. Social responsibility information disclosed by companies would be done in a more qualitative way. According to the leading proponents of this perspective, the difficulty in attributing monetary values to the social and environmental impacts of a company's activities, and the subsequent arbitrariness of such an attribution, is possibly an insurmountable problem.

An important consequence of the first perspective is the idea that to protect the environment, accounting should value social and environmental resources in order for them to be considered in economic decision making. On the other hand, the second perspective views it to be undesirable to give air, water, land, natural habitats, and endangered species an artificial price because nature reacts according to completely different laws than accounting systems. Nature is based on interconnectedness and interaction of all things, whereas accounting systems divide, separate and count everything independently (Hines, 1991).

Gray *et al.* (1988, p. 10) criticized what they considered to be two of the most frequent arguments in favour of the first perspective outlined above:

- measurement through financial indicators is a universal measure and financial accounting is a universally appropriate medium;
- users are familiarized with the presentation forms of conventional accounting as a basis to their decision making.

Gray *et al.* (*ibid.*) reject the first argument by stressing the "dangers and the probable infeasibility" of attributing financial values to a company's social activities. Moreover, the second reason has no justification because the only users who one can presume to be more or less familiarized with financial statements are managers and investors (*ibid.*).

The present-day dominant perspective in SRD research appears to be the second approach outlined above. Thus, one can say that social responsibility information has somewhat different characteristics than conventional accounting information (being financial or non-financial, quantitative or qualitative), and concerns social, environmental and ethical issues. Social responsibility information refers to employee related issues (for example, employee numbers and remuneration, training and education, or employment of minorities or women), environmental concerns (for example, information about environmental impacts of products and processes, environmental related expenditures, energy efficiency), and other ethical issues such as community involvement (for example, information relating to sponsorship of sporting events or art exhibits or charitable donations and activities) or product safety and quality and consumer relations.

4.3 Methodological issues

There are two kinds of methodological issues surrounding research into SRD, related to the sample selection and to data capture. Among the latter kind of issues, those related to the selection of the media to use as the basis for data capture and the methodologies employed for data collection are particularly relevant. These issues are discussed below.

4.3.1 Sample selection

The choice of samples used in SRD studies usually has been based on company size, analysing the documents produced by large companies (see, for example, Adams *et al.*, 1995, 1998; Archel, 2003; Buhr and Freedman, 2001; Gray *et al.*, 1995a, 1995b; Guthrie and Parker, 1990; Hackston and Milne, 1996; Ness and Mirza, 1991; Neu *et al.*, 1998). However, there are other possible approaches, such as the selection of "interesting" or "best practice" examples, or the selection of large, medium and unlisted companies (Gray *et al.*, 1995b, p. 87).

There are good reasons to use a sample of large companies when studying SRD (*op. cit.*, p. 88):

- it is more likely to capture more SRD and identify innovative examples;
- as a large number of other studies use large companies samples, its use means greater potential for comparability of results with previous studies;
- it is easier to obtain the annual reports from large companies.

An additional reason to use a sample of large companies is that they are more likely to have a web page that provides SRD: these sites are nowadays important sources of data (Freeman and Jaggi, 2005).

More importantly, several studies have suggested that there is an association between corporate size and SRD (see, for example, Adams *et al.*, 1995, 1998; Belkaoui and Karpik, 1989; Cowen *et al.*, 1987; Hackston and Milne, 1996; Patten, 1991; Trotman and Bradley, 1981). Larger companies are more likely to have a significant social and environmental impact, and tend to receive more attention from the general public (Cowen *et al.*, 1987, p. 113). They are under greater pressure to exhibit social responsibility, in addition to having more stakeholders who might be concerned with social programmes undertaken by the company (*ibid.*). Eilbirt and Parket (1973, p. 11) suggested that larger companies "may simply be or feel themselves to be 'targets' and thus find it necessary, because of their dominance, to make visible efforts to establish social responsibility credentials." Large companies are also considered to have more resources to make additional disclosures than the small and medium sized companies (Belal, 2001).

One option which is often taken is to use a sample of listed companies (see, for example, Abu-Baker and Naser, 2000; Ahmad *et al.*, 2003; Day and Woodward, 2004; Gao *et al.*, 2005; Garcia-Ayuso and Larrinaga, 2003; Guthrie and Parker, 1990; Hackston and Milne, 1996; Haniffa and Cooke, 2005; Imam, 2000; Kuasirikun and Sherer, 2004; Ahmad and Sulaiman, 2004; O'Dwyer, 2003; O'Dwyer and Gray, 1998; Purushothaman *et al.*, 2000; Williams, 1999; Williams and Pei, 1999). Companies that are listed on the stock market are usually subject to more extensive disclosure requirements with respect to various aspects of their operations, including those related to social responsibility. Hence, listed companies are more likely to disclose social responsibility information.

4.3.2 Data capture

4.3.2.1 Content analysis

Content analysis is the dominant method used to examine SRD in annual reports (see, for example, Abbot and Monsen, 1979; Zéghal and Ahmed, 1990; Gray *et al.*, 1995b; Hackston and Milne, 1996; Milne and Adler, 1999; Unerman, 2000), corporate web pages (see, for example, Patten, 2002a; Patten and Crampton, 2004; Williams and Pei, 1999) and stand-alone reports (see, for example, Frost *et al.*, 2005). Examining SRD using content analysis may also be a method of measuring a company's corporate social and environmental performance (Bansal, 2005).

Content analysis can be defined as a research technique "that consists of codifying qualitative information in anecdotal and literary form into categories in order to derive quantitative scales of varying levels of complexity." (Abbott and Monsen, 1979, p. 504) It relies on the assumption that the extent of disclosure (either the number of times an item is disclosed, or the amount of space devoted to disclosure) provides some indication of the importance of an issue to the reporting entity, and to derive an indication of the meanings, motivations and intentions of the communicator (Gray *et al.*, 1995b, p. 89).

To be useful, data collected using content analysis should be objective, systematic and reliable (Gray *et al.*, 1995b, p. 80). Data collected are objective when independent parties are able to identify similarly what is, and what is not, a SRD. The systematic criterion requires explicit rules to ensure that a researcher knows what observations to record, and that an alternative researcher can verify easily whether the observations exist and are classified correctly according to the defined categories and sub-categories. Categories of disclosure selected should be mutually exclusive as far as is practical. Reliability relates to the extent to which identical results would be obtained if the same process was undertaken either by the analyst on a different sample, or by a different analyst.

Two other considerations relate to external validity and volume of data: not only does content analysis have a high level of external validity, but it also permits analysis of large volumes of data, which can be coded by several individuals if necessary.

4.3.2.2 Media to use as the basis for data capture

Many studies of SRD use annual reports as the only source for gathering data on social responsibility information disclosure. Although annual reports are important sources of data about a company, their use as the only source for gathering data on the social responsibility information disclosure can be criticised for ignoring other forms of communication. Annual reports are just one source of information. All forms of data reaching the public domain can be considered to be part of a company's accountability discharge activity and, hence, annual reports, stand-alone reports, advertising and house magazines, can also be seen as vehicles of social accountability (Gray *et al.*, 1995b, p. 82).

There are three dominant reasons for restricting the analysis to annual reports (Gray *et al.*, 2001, pp. 350-351):

- the difficulty in identifying all other disclosures makes it a more practical option;
- the annual report is a central corporate document which provides information about the company as a whole;
- the most appropriate location for an account of a company's social and environmental activities is its principal accountability document – the annual report.

In practice, it is impossible to monitor all forms of communication about the CSR. But there are other good reasons to focus on the disclosures made in annual reports. First, the annual report is the main corporate communication tool, which represents a company and is used widely. Some authors consider that the annual report is probably the most important document in terms of the way an organisation constructs its social imagery to all stakeholders (Gray *et al.*, 1995b, p. 82). Moreover, Neu *et al.* (1998, p. 269), in an examination of environmental disclosures, argue that annual reports "provide organisations with an effective method of managing external impressions", not least because the annual report is considered to possess a degree of credibility not associated with other corporate communication media. The proximity of the narrative material in the annual report to the audited financial statements and the fact that the auditors must read such material gives it a degree of credibility that other media can not be claimed to have (*ibid.*).

Annual reports are statutory documents, required to be produced on an annual basis by all companies, thus allowing comparisons to be made. Some evidence indicates that annual reports are used widely to disclose social responsibility information and the dominant source of information used by a number of stakeholder groups interested in social and environmental impacts of companies (Deegan and Rankin, 1997; Tilt, 1994).

Following Campbell *et al.* (2006, pp. 102-103), it is possible to envisage at least three reasons why companies use the annual report as SRD media, despite the fact that the main audience for the report is likely to be shareholders. First, because expenditure in social responsibility activities may be seen either as contributing to reduce profits (and potentially dividends) or as investments that provide a return in the future, disclosure in the annual report is used to explain and justify such activities and expenditures to shareholders. Second, SRD is part of a company's reputation risk disclosure. A company considered by investors as having a higher structural exposure to reputation risk may decide to manage that risk through SRD as a form of reassuring them. These authors specifically refer to risks related to potential costs arising from a deterioration of a company's reputation in society, such as those related to boycotts, lobbying and lost sales. Third, the annual report is used by a company to provide relevant information in case any of its stakeholders wish to determine the company's attitudes to selected social issues.

While using the annual report as the only source for gathering data on SRD, some authors point out that their research can be criticised for ignoring other forms of communication (see, for example, Roberts, 1991). Some studies try to overcome such limitation by considering other disclosure media in addition to the annual report. One of the first studies to consider other media was Zéghal and Ahmed (1990). They analysed advertisements and company brochures used by banks and petroleum companies and compared their level of utilisation with the annual report. They concluded that advertisements "are not a major means of disclosing social information" (*op. cit.*, p. 46), while brochures do "appear to be a widely used means of disclosing." (*op. cit.*, p. 47)

Particularly over the last decade, companies have begun to use other disclosure media, such as discrete reports (environmental reports, social responsibility reports, sustainability reports, etc.) and the Internet (Frost *et al.*, 2005, p. 89). The development of the Internet has been considered "pertinent to further development of social accounting" (Epstein, 2004, p. 16). Studies analysing the Internet as a tool for communicating with stakeholders and a SRD medium have been growing in recent years (see, for example, Campbell and Beck, 2004; Chapple and Moon, 2005; Cooper, 2003; Esrock and Leichty, 1998, 2000; Frost *et al.*, 2005; Haddock, 2006; Jones *et al.*, 1999; Maignan and Ralston, 2002; McMurtrie, 2005; Patten, 2002a; Patten and Crampton, 2004; Rikhardsson *et al.*, 2002; Snider *et al.,* 2003; Williams and Pei, 1999). More recently, some authors have begun to analyse SRD through three disclosure media (annual reports, discrete reports and web pages) (see, for example, Frost *et al.*, 2005).

The Internet provides several benefits for communicating information to stakeholders over annual reports. Such benefits are related to the following aspects (Williams and Pei, 2000, p. 392-394):

- stakeholders can receive information in real time (because it can be updated immediately or on a regular basis), from any location and at any time of the day;
- lower cost of information dissemination, because costs such as those related to printing and postage do not exist;
- lack of space restrictions;
- it facilitates two way interaction and feedback through e-mail and other mechanisms, thus enabling the establishment of more personal relations between companies and their stakeholders.

The benefits of the Internet for communicating information to stakeholders over traditional communication channels are related substantially to the possibility of disseminating more information less expensively and in a more timely fashion, and to its interactive nature. One of the more interesting features of the Internet is that it allows companies to provide information targeted to different stakeholders and to obtain feedback from them. As pointed out by Esrock and Leichty (2000, p. 328), "unlike traditional mass media channels, a single web site can have multiple sections, each targeted to a different audience." Furthermore, as argued by Campbell *et al.* (2003, p. 572), the Internet "is possibly the most powerful means of providing targeted information to specific concerned stakeholders as a legitimation strategy."

One important aspect which can be regarded as a limitation of the Internet when compared with annual reports is the proximity of the narrative material in the annual report to the audited financial statements. The fact that the auditors must read such material gives it a degree of credibility that other media can not claim to have (Neu *et al.*, 1998, p. 269), including the Internet.

4.3.2.3 Methodologies employed for data collection

Defining disclosure categories

SRD has been analysed using several different groups of categories. For example, Trotman and Bradley (1981) and Guthrie and Parker (1989, 1990) used the categories of environment, energy, human resources, products, community involvement and other. Cowen *et al.* (1987), Zéghal and Ahmed (1990) and Patten (1991) employed the categories initially proposed by Ernst and Ernst (in 1978): environment, energy, fair business practices, human resources, community involvement, products, and other disclosures. Ness and Mirza (1991) identified four areas of social disclosure related to product, employee, environment and community. Gray *et al.* (1995a, 1995b) proposed and used a long list of categories that they grouped into the broader categories of human resources, environment, community and customer. Hackston and Milne (1996) used the categories of environment, energy, employee health and safety, employee other, products, community involvement, and others. Williams (1999), Williams and Pei (1999) and Purushothaman *et al.* (2000) used the categories of environment, energy, human resources, products and customers, and community involvement. Abu-Baker and Naser (2000) used the categories of environment, energy, human resources, products, community involvement, and others. Deegan *et al.* (2002) used very similar categories to Hackston and Milne (1996), but excluded the category of products and considered an employee category which includes employee health and safety and 'employee other'. Newson and Deegan (2002) used eight categories: environment, energy, diversity, fair business practices, human resources, community, products and other.

Other writers merged these categories into broader areas of similar theme. For example, Adams *et al.* (1995, 1998) analysed SRD under the categories of environmental, employee issues and ethical reporting. Ethical reporting was defined by Adams *et al.* (1998, p. 4) as, "any information, except employee or environmental, that was concerned directly or indirectly with giving an impression of corporate ethical values." This category included, "customer relations, community involvement, equal opportunities, investment policies, charitable and political activities and product safety" (*op. cit.*, p. 5). Gray *et al.* (1996, pp. 167-216) also structured their analysis around these three categories when surveying corporate social reporting practice in Western Europe.

As Milne and Chan (1999, p. 439) observe, many of the previous studies show that most of the social responsibility information relates to employees, the environment and the community. These three categories where used by O'Dwyer and Gray (1998), Campbell (2000), Campbell *et al.* (2003) and Kuasirikun and Sherer (2004). Campbell (2000, p. 86) and Campbell *et al.* (2003, p. 567) exclude customers as a social constituency, and we can infer that disclosures related to product safety, product quality and consumer relations are not considered at all. Although they claim to have used the research instrument developed by Gray *et al.* (1995b), O'Dwyer and Gray (1998) are not very clear about customer disclosure. Gray *et al.* (1995b) considered a category of customer disclosure, but it is not immediately apparent the inclusion of costumer disclosure in any of the categories used by O'Dwyer and Gray (1998).

Tsang (1998) and Imam (2001) also used these three categories, but while the former added an "other" category in which product quality is included, the latter added a "consumer issues" category. Belal (2001) adapts the employee and ethical disclosures categories used by Adams *et al.* (1995, 1998), and adds a third category for other disclosures, in which things like the value added statement and management appreciation are included.

Quantifying disclosures

Different "units of analysis" can be used when codifying qualitative information into quantitative format (i.e. coded data). Disclosure themes can be used as a unit of analysis, giving information on the number of different items of SRD present on the documents studied, or frequency of disclosures. However, most studies use one or a combination of words, sentences or pages as the unit of analysis, giving information on the volume or amount of disclosure.

The simplest form of content analysis consists of detecting the presence or absence of social responsibility information, where at least one information item needs to be disclosed under each category (see, for example, Archel, 2003; Branco and Rodrigues, 2006a; Brown *et al.*, 2005; Buhr and Freedman, 2001; Frost *et al.*, 2005; Gamble *et al.*, 1996; Gamble *et al.*, 1995; Haniffa and Cooke, 2005; Magness, 2006; Moneva and Llena, 2000; Niskala and Pretes, 1995; Patten, 2002a, 2002b, 2002c; Patten and Crampton, 2004; Patten and Trompeter, 2003; Purushothaman *et al.*, 2000; Belkaoui, 2001; Suwaidan *et al.*, 2004; Woodward and Day, 2006). Although it allows to capture the "variety" of disclosures (Haniffa and Cooke, 2005, p. 405), one of the main shortcomings of this form of content analysis is that it does not allow measurement of the extent of information disclosure and, therefore, the coded data do not reflect the emphasis that companies attach to each information item (Zéghal and Ahmed, 1990, p. 42). However, some authors believe that analysis of the frequency of disclosure themes and changes in disclosures over a period of time is sufficient to reflect the importance of a disclosure (Burritt and Welch, 1997, p. 8).

In its simplest form, this technique of content analysis, which is known as "indexing", consists of assigning a score of 1 to each information category when there is disclosure on the given information category. If no information item is disclosed for an information category, a score of 0 is assigned. It is possible to assign a total score to each company by adding up scores of 1, and obtaining a percentage number of the information categories that companies had disclosed (see, for example, Haniffa and Cooke, 2005; Suwaidan *et al.*, 2004).

If an unweighted scoring approach is used, disclosure scores for each company can be added and not weighted, the assumption being that each item of disclosure is equally important. It does not allow analysis of the quality or completeness of the information provided. It merely recognizes that the company has provided some information on the relevant issue (Frost *et al.*, 2005). While using two disclosure indexes based on two weighting schemes (equal weights, assigning a one to each item, and unequal weights), Freeman and Jaggi (2005, p. 223) recognize the equal weight method is simple and avoids controversies.

But this technique can be refined by attributing values, for example, between 0 and 3: 0 if the information is not disclosed, 1 if it is disclosed in general terms, 2 if it includes company-specific information, and 3 if the item is company-specific and disclosed in monetary or quantitative terms (Aerts *et al.*, 2006; Al-Tuwaijri *et al.*, 2004; Bewley and Li, 2000; Choi, 1999; Cormier *et al.*, 2004; Cormier and Magnan, 2003; Cormier *et al.*, 2005; Fekrat *et al.*, 1996; Wiseman, 1982). Warsame *et al.* (2002) modified this scale by assigning a 4 to a category if the disclosure was company specific, described in quantitative terms, and given a separate sub-heading, that is, presented under a heading such as "environment". Hughes *et al.* (2001) also attribute values between 0, if no information is disclosed, and 4: 4 is assigned to quantitative disclosures, 3 to descriptive disclosures, 2 to vague disclosures, and 1 to immaterial disclosures. Archel (2003) used a scoring system according to which a score of 1 was assigned if complete information was disclosed, 0 if no information is disclosed and 0.5 if partial information is disclosed. This is usually done in order to evaluate the quality of the information disclosed.

Several different methods have been used by previous studies to measure volume of SRD, including:

- number of sentences disclosed (see, for example, Ahmad and Sulaiman, 2004; Buhr, 1998; Buhr and Freedman, 2001; Deegan *et al.*, 2002; Deegan *et al.*, 2000; Hackston and Milne, 1996; Hasseldine *et al.*, 2005; Holland and Foo, 2003; Jantadej and Kent, 1999; Milne and Adler, 1999; Ogden and Clarke, 2005; Raar, 2002; Smith *et al.*, 2005; Tilt, 2001; Tilt and Symes, 1999; Tsang, 1998; Thompson and Zakaria, 2004; Walden and Schwartz, 1997; Williams, 1999; Williams and Pei, 1999);
- pages or proportion of pages (see, for example, Abu-Baker and Naser, 2000; Adams *et al.*, 1995, 1998; Adams and Kuasirikun, 2000; Campbell, 2000; Gray *et al.*, 1995a, 1995b; Guthrie and Parker, 1989, 1990; Hibbitt, 2004; Kuasirikun and Sherer, 2004; McMurtrie, 2005; Newson and Deegan, 2002; O'Dwyer and Gray, 1998; O'Dwyer, 2003; Patten, 1991, 1992; Rockness, 1985; Savage *et al.*, 2000; Smith *et al.*, 2005; Thompson and Zakaria, 2004; Unerman, 2000);
- number of words disclosed (see, for example, Brown and Deegan, 1998; Campbell, 2000, 2003, 2004; Campbell *et al.*, 2003, 2006; Cowan and Gadenne, 2005; Cunningham and Gadenne, 2003; Deegan and Rankin, 1996; Frost and Seamer, 2002; Gao *et al.*, 2005; Haniffa and Cooke, 2005; Neu *et al.*, 1998; Smith *et al.*, 2005; Wilmshurst and Frost, 2000; Zeghal and Ahmed, 1990);
- lines (Belal, 2000, 2001; Choi, 1999; Garcia-Ayuso and Larrinaga, 2003; Patten, 2002c; Trotman and Bradley, 1981).

Number of pages as a measure of disclosure is often criticized because it does not consider different page sizes, font sizes, margin sizes (Hackston and Milne, 1996, p. 84). Number of words is said to cause difficulties due to different styles of writing (Tilt and Symes, 1999, pp. 144-145), as is also the case with number of sentences (Cowen *et al.*, 1987, p. 117; Unerman, 2000, p. 675).

Ingram and Frazier (1980, p. 617) suggest the sentence as the unit of analysis, as it is easily identified and is less subject to inter-judge variation than other measures, such as themes, words and pages. The advantages of sentences are in overcoming the problems related to font, margin or page size, in not needing to standardise words, in obtaining more reliable inter-rater coding (Hackston and Milne, 1996, p. 84-86), and in allowing more detailed analysis of specific issues and themes (Deegan *et al.*, 2002, p. 322).

Using pages as a measure of disclosure can lead to the inclusion of pictures that have no information on environmental or social activities, but using words or sentences ignores necessary graphs and tables (Al-Tuwaijri *et al.*, 2004, p. 454). Measuring SRD in terms of number of words, sentences or lines precludes measurement of photographs and graphics (Unerman, 2000, p. 675-676). However, Hackston and Milne (1996, p. 93) showed that measurements of average page amounts (including pictures) and numbers of sentences of SRD were both correlated significantly with a number of important variables, and thus the choice between the two methods had little impact on results. Hence the results should not be influenced greatly by the choice of sentences instead of words, or proportion of pages. Deegan *et al.* (2000, p. 118) also did not measure pictures, considering that it was “difficult to place an objective measure on pictures and diagrams.” In contrast, Kuasirikun and Sherer (2004) considered photographs and charts/graphs/tables as one of the possible forms of disclosure, the others being narrative, monetary, non-monetary disclosure.

Moreover, while using words, pages, or lines to measure the social responsibility content of text, most studies use sentences to code the content (Milne and Adler 1999, p. 243). That is, sentences are used to determine into which category the text is classified, regardless of the unit used to measure the volume of disclosure. However, Guthrie *et al.* (2004, p. 288) suggest the paragraph as another possible unit of analysis arguing that meaning usually is established through paragraphs rather than through sentences or words.

Al-Tuwaijri *et al.* (2004, p. 454) argue that measuring the volume of SRD using pages, words or sentences “is susceptible to ‘greenwashing,’ in which management puts its best ‘spin’ on what otherwise might be a lack-luster environmental performance.”

Quantity *versus* quality of disclosure

Some studies analyse whether disclosures are narrative or quantified in either monetary (financial) or non-monetary (physical) terms. Evidence can be used to measure the type of SRD so that some indication of the nature of the disclosures could be given. Some authors distinguish between “monetary”, “non-monetary”, and “declarative” (Abu-Baker and Naser, 2000; Guthrie and Parker, 1990; Ahmad and Sulaiman, 2004); between “monetary”, “quantitative non-monetary” and “declarative” disclosure (Hibbitt, 2004); between “monetary quantitative”, “other quantitative” and “declarative” disclosure (Gray *et al.*, 1995b; O’Dwyer and Gray, 1998); between “monetary”, “quantitative” and “narrative” (Zéghal and Ahmed, 1990; Williams and Pei, 1999); between “purely descriptive”, “non-financial” and “financial” (Belal, 2000, 2001); between “generic”, “qualitative”, quantitative” and “financial” (Moneva and Llena, 2000), or between “qualitative”, “quantitative” and “financial” (Niskala and Pretes, 1995). Regarding the form of disclosure, Kuasirikun and Sherer (2004) considered the following possibilities: narrative, monetary, non-monetary, photographs, and charts/graphs/tables.

Content analysis has been criticised because the measures used consider quantity and not quality of disclosure. However, this limitation has been deemed acceptable by Campbell (2000, p. 87). Some authors believe that distinguishing between qualitative and quantified (monetary and non-monetary) disclosures provides some indication of the quality of disclosures (Gray *et al.*, 1995b, p. 84), because numerical information is believed to be more useful than descriptive information on a company’s social and environmental impact. For example, Smith *et al.* (2005) used the presence of numeric data either on the body of the text or in table/schedule format in the annual report as a proxy to assess the quality of disclosure.

Some previous research placed a heavy weighting on quantitative disclosures (see, for example, Bewley and Li, 2000; Choi, 1999; Cormier and Magnan, 2003; Cormier *et al.*, 2004; Fekrat *et al.*, 1996; Freeman and Jaggi, 2005; Hughes *et al.*, 2001; Warsame *et al.*, 2002; Wiseman, 1982). However, some authors consider that weighting systems imply some kind of bias towards social responsibility of a financial kind (Burritt and Welch, 1997, p. 9). Some disclosures are very important but can not be depicted in quantitative terms (for example, the creation of a social responsibility committee), or very rarely are (for example, references to ISO 9001, 14001).

A distinction between the types of news can also be considered. Some studies categorise each disclosure according to whether the “news” communicated by the disclosure can be considered as “good”, “bad” or “neutral” (see, for example, Hackston and Milne, 1996; Gray *et al.*, 1995b; Hibbitt, 2004; Ahmad and Sulaiman, 2004; O’Dwyer and Gray, 1998; Thompson and Zakaria, 2004), or as “positive”, “negative” or “neutral” (see, for example, Brown and Deegan, 1998; Cowan and Gadenne, 2005; Cunningham and Gadenne, 2003; Deegan and Rankin ,1996; Deegan *et al.*, 2000, 2002). Such distinction is also believed to provide some indication of the quality of disclosures (Gray *et al.*, 1995b, p. 84).

However, Bewley and Li (2000, p. 206) deliberately avoided such a distinction due to its subjectivity. For example, “capital expenditures for pollution control may be ‘good’ news for corporate environmental stakeholders but may represent cash outflow with no expected economic benefit from a shareholder’s perspective.” (*op. cit.*, p. 221n) In addition, some disclosures that can only take on positive or negative qualities in relation to other comparative data, such as employee remuneration or profiles or emissions data, cannot be seen either as positive or negative in nature (Patten and Crampton, 2004).

<u>Other aspects</u>

Previous studies indicate that most social responsibility disclosures are qualitative and, hence, will not be located in the financial statements section of annual reports unless in notes to the accounts. Despite the non-existence of a sound theoretical grounding for where SRD might be expected to appear (Gray *et al.*, 1995b, p. 83; Hackston and Milne, 1996, p. 84), a further matter considered in some studies is the location of such disclosures within annual reports (see, for example, Abu-Baker and Naser, 2000; Bewley and Li, 2000; Campbell, 2000; Gao *et al.*, 2005; Guthrie and Parker, 1990; Holland and Foo, 2003; Kuasirikun and Sherer, 2004; Moneva and Llena, 2000; Ahmad and Sulaiman, 2004; Tilt and Symes, 1999; Walden and Schwarz, 1997).

Some studies also distinguish between voluntary and mandatory disclosures (see, for example, Archel, 2003; Gray *et al.*, 1995b; Hibbitt, 2004; Moneva and Llena, 2000). Other studies do not use such distinction, arguing that the level of SRD required by legislation is so low that such distinction is not useful (Adams *et al.*, 1998, p. 5; Hackston and Milne, 1995, p. 86).

4.4 Issues of theoretical interpretation

Different theoretical perspectives about the motivations for companies to disclose social responsibility information have been used to generate and interpret empirical evidence. In an influential review of the SRD literature, Gray *et al.* (1995a) divided much of the extant research into the following three categories: decision usefulness studies, economic theory studies, and social and political theory studies.

4.4.1 Decision usefulness approaches

The basic line of argument for the decision usefulness approaches is that companies release information on their social responsibility activities because users find it useful for their investment decisions. Milne and Chan (1999) identified three types of decision usefulness studies: survey, market reaction and experimental studies. The "survey" studies concentrate mainly on undertaking surveys of potential users of the information (see, for example, Buzby and Falk, 1979; Epstein and Freedman, 1994; Deegan and Rankin, 1997; Theo and Shui, 1990). Other studies focus on studying the market reaction to SRD (see, for example, Anderson and Frankle, 1980; Belkaoui, 1976; Ingram, 1978; Jaggi and Freedman, 1992; Mahapatra, 1984). "Experimental" studies assess the impact of social responsibility information on investment decision-making (see, for example, Milne and Chan, 1999; Chan and Milne, 1999).

4.4.2 Economic theory approaches

Some prominent economic theory approaches rely on the positive accounting theory of Watts and Zimmerman (1978) which suggests that government regulation is a political cost to companies. Positive accounting theory is based on the assumption that economic agents are rational and will act in an opportunistic manner to maximize their wealth. Individuals are driven by self-interest (tied to wealth maximisation). Based on such views, Ness and Mirza (1991, p. 212) argue that "managers will disclose social information only if it increases their welfare, that is, when the benefits from the disclosure outweigh the associated costs."

When defining political costs, Watts and Zimmerman (1978, p. 115) specifically referred to "social responsibility campaigns in the media" as one of the possible actions that companies take to avoid the adverse attention that high profits draw. These actions are done to reduce the likelihood of adverse political actions and expected costs, which include "the costs labour unions impose through increased demands generated by large reported profits." (*ibid.*) To prevent wealth transfers, large companies are more likely to use accounting choices that reduce reported profits or make other disclosures to reduce political costs. Thus, companies attempt to avoid potential pressure from government regulatory agencies which enforce CSR through SRD (see, for example, Belkaoui and Karpik, 1989).

More recently, some studies have adopted an information economics perspective to analyse SRD (see, for example, Bewley and Li, 2000; Cormier and Gordon, 2001; Cormier and Magnan, 2003, Li *et al.*, 1997). These studies suggest that companies may disclose social responsibility information in a strategic fashion, with disclosure decisions being influenced by the risk of the company being affected adversely by third parties, who can use information disclosed by the company to its disadvantage.

Bewley and Li (2000) and Li *et al.* (1997) examine environmental disclosure through the lens of voluntary disclosure theory. Proprietary costs are taken into account to explain the reluctance of managers to disclose voluntary information. Companies withhold the information that could be used by third parties (such as competitors who can, for example, change their production plans) and cause a decrease in future cash flows. Proprietary costs arise due to the existence of proprietary information, that is, private information which can be used by third parties to inflict costs upon the company. For example, some environmental information can be used to damage a company's competitive position (see, for example, Li *et al.*, 1997, p. 441).

Cormier and Gordon (2001) and Cormier and Magnan (2003) examine social responsibility information disclosure within a costs/benefits framework, considering both information and proprietary costs. According to such perspective (Berthelot *et al.*, 2003, p. 6):

- on the one hand, managers may refrain from disclosing information if they perceive that investors do not need it or can easily find it from alternative sources, and
- on the other hand, they may choose to minimize the disclosure of information if it can lead to proprietary costs through actions against the company by third parties, such as regulators or lobby groups.

Given that managers usually have access to information that investors do not (information asymmetry), if they do not provide credible information about their company, investors will assume the worst and will bid down its stock price or require an interest rate premium on debt. Alternatively, if investors consider the benefits from information gathering to outweigh the costs, they may seek and collect more information from alternative sources. By disclosing credible information, a company allows investors to reduce such data collection and analysis costs. Thus, there are benefits from additional disclosure related to a reduction in information asymmetry and in overall information gathering costs to be assumed by investors.

A few recent studies also draw upon the resource-based views in management research to analyse the economic potentials of CSR and disclosure (Toms, 2002; Hasseldine *et al.*, 2005). One of the advantages of these perspectives regarding other economic theories is that they allow the researcher to concentrate on what managers are actually doing to create heterogeneous resources to sustain competitive advantage in the form of enhanced reputation, rather than on what they are trying to avoid happening (for example, political costs) (Hasseldine *et al.*, 2005, p. 233).

4.4.3 Social and political theories

Under the social and political theory group one might include three overlapping perspectives: stakeholder theory, legitimacy theory and political economy theory. In contrast to the decision usefulness and economic theory approaches, the social and political theories seek to explain SRD and other aspects of the business-society relationship in terms other than a simply economic perspective. These theories take a systems perspective, recognising that companies influence, and are influenced by, the society in which they operate. Gray *et al.* (1995a, p. 67) argue that different approaches within social and political theories should be seen not as competitive explanations but as "sources of interpretation of different factors at different levels of resolution."

Social and political theories appear to be gaining greater acceptance in recent literature as they can be said to provide a broader and more complex explanation of SRD practices. Gray *et al.* (1995a, p. 52) suggest that studies informed by social and political theories offer the potential for "far more interesting and insightful theoretical perspectives" and have resulted in the "most penetrating analyses" of SRD.

4.4.3.1 Political Economy Theory

Political economy theory suggests "that the economic domain cannot be studied in isolation from the political, social and institutional framework within which the economic takes place." (Gray *et al.*, 1995a, p. 52) Therefore, economics, politics and society are thought to be inseparable and should all be considered in accounting research.

Following Gray *et al.* (1995a, pp. 52-53), two political economy theories have been distinguished. Classical political economy is concerned with class interests, structural conflict, inequality and the role of the state: that is, with how relative differences in power, wealth, etc., are generated and maintained by the capitalist system. In contrast, bourgeois political economy theory ignores these aspects and is concerned with interactions between groups in a pluralistic world in which the interests of different groups are seen as harmonious or at least the interests of some of them do not necessarily dominate the interests of others. Legitimacy theory and stakeholder theory are identified as two overlapping perspectives derived from the bourgeois variant of political economy theory.

The classical variant of political economy theory views SRD as part of an attempt to legitimise not only individual companies within the capitalist system but the system as a whole (see, for example, Adams *et al.*, 1995; Adams and Harte, 1998). Accounting reports, and thus SRD within them, "serve as a tool for constructing, sustaining, and legitimizing economic and political arrangements, institutions, and ideological themes which contribute to the corporation private interests" (Guthrie and Parker, 1990, p. 166).

Proponents of the bourgeois variant of political economy theory argue that disclosure can only be explained in relation to the socio-political environment within which companies operate. In general, SRD is considered to be a function of social and/or political pressure, and companies facing greater social/political pressures are believed to provide more extensive SRD. SRD is seen as a response to competing pressures from various stakeholders such as governments, employees, environmental groups, customers, creditors, suppliers, the general public and other social activist groups.

Self-interest and profit maximization assumptions that form the basis of economic theories are not excluded from the analysis by social and political theories, but it is suggested that these are not the only factors that need to be considered. While recognizing that companies may disclose social responsibility information for ethical reasons, social and political theories suggest that companies use SRD to deflect criticism and control public debate.

However, while legitimacy theory studies SRD within a socio-political context, stakeholder theory adopts a socio-economic perspective. Stakeholder theory sees SRD as one tool used by companies to manage their relationships with those stakeholders which are viewed as important in terms of its primary goals. In contrast, legitimacy theory "widens the focus of analysis to recognize that social and environmental disturbances take place outside the context of stakeholder relations and that such disturbances may threaten the sovereignty of the organization" (Hibbitt, 2004, p. 264).

4.4.3.2 Stakeholder Theory

Stakeholder theory is based on the notion that companies have several stakeholders, defined as "groups and individuals who benefit from or are harmed by, and whose rights are violated or respected by, corporate actions" (Freeman, 1998, p. 174), with an interest in the actions and decisions of companies. Stakeholders include in addition to shareholders, creditors, employees, customers, suppliers, local communities, government, interest groups, etc. Companies have a social responsibility that requires them to consider the interests of all stakeholders and require their continued support to maintain a successful operating environment.

Two variants of stakeholder theory can be identified (Gray *et al.*, 1996, pp. 45-46; Deegan, 2002, p. 294). The first variant, which Deegan (2002) designates as ethical (or normative), holds that all stakeholders have the right to be treated fairly by a company. This view is reflected in the Gray *et al.* (1996) accountability framework, which argues that the company is accountable to all stakeholders to disclose social responsibility information. Because it is considered to have little descriptive or predictive power of managerial actions and decisions, it will not be further discussed here.

The second variant, which Deegan (2002) designates as managerial (or positive), explains SRD as a way of managing the company's relationship with different stakeholder groups (see, for example, Roberts, 1992; Ullman, 1985). Ullmann (1985) suggested that SRD is used strategically to manage relationships with stakeholders. Stakeholders are considered as having varying degrees of power or influence over a company, the importance being associated with control of resources. The more important (influential or powerful) the stakeholders are to the company, the more effort will be made to manage the relationship.

Although not offering any empirical evidence in its support, Ullmann (1985) suggested a framework for examining social responsibility activity using a three-dimensional model consisting of: stakeholder power, strategic posture, and economic performance. "Strategic posture" refers to the way companies respond to external demands. They can adopt an active posture and seek to influence the relationship with important stakeholders, or a passive posture. An active posture involves continuous monitoring and management of the company's relationship with important stakeholders. On the contrary, a company which adopts a passive posture makes no attempt to monitor and manage its relationship with its stakeholders. Given that the ability and desire to attend to social demands are at least partially tied to economic performance, the strategic posture adopted obviously is influenced by this factor. In periods of low economic performance, companies' economic objectives will be given more attention than social concerns. The third aspect to consider in this framework is stakeholder power, with high stakeholder power meaning that stakeholders are able to influence management behaviour because they control resources critical to the company. In periods of high stakeholder power, a company with an active posture is expected to make deliberate and conscious efforts to satisfy stakeholders' demands through both actual performance, and disclosure of information about that performance.

Roberts (1992) was probably the first author using the framework developed by Ullmann to test SRD practices empirically. He found that stakeholder power, strategic posture and economic performance are related significantly to levels of SRD and that SRD is used by managers as a proactive method of managing stakeholders and their organisational environment.

Managerial stakeholder theory is an organisation-centred theory that leads to interpret examples of voluntary SRD "as indicative of which stakeholders matter most to an organization and, thus, those which the organization may be seeking to influence." (Gray *et al.*, 1996, p. 46) About this variant of stakeholder theory, and relating it to political economy theory discussed above, one can say that it is "explicitly bourgeois in that the world is seen from the perspective of the management of the organisation who are concerned strategically with the continued success of the company" (Gray *et al.*, 1995a, p. 53). The same can be said of legitimacy theory, which is discussed below. These two theories hold that SRD is made for strategic reasons and such motivation is in clear contrast with the motivation envisaged by the ethical stakeholder theory which accepts the responsibility to disclose information to those who have a right to it.

4.4.3.3 Legitimacy Theory

Legitimacy is defined by Suchman (1995, p. 574) as “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.” He also identifies three types of organisational legitimacy (pragmatic, moral and cognitive) and three key challenges of legitimacy management (gaining, maintaining and repairing). Suchman (1995, p. 586) points out that “legitimacy management rests heavily on communication.” Therefore in any attempt to involve legitimacy theory, there is a need to examine some forms of corporate communications.

Nowadays companies need to do more than just provide economic benefits, such as profits, wages and employment, and comply with the law to be considered as legitimate within the society in which they operate. It has become necessary for them to act and be seen acting within the bounds of what is considered as acceptable according to the values and norms of society. The idea that profit making is the prime purpose of companies is not denied by the recognition of a “social contract” between business and society. However, such recognition implies that companies also have an obligation to act in accordance with the norms and values of the society in which they operate, including acting in a socially-responsible manner (Hibbit, 2004, p. 264).

It is necessary to distinguish between legitimacy and legitimation: whilst legitimacy can be considered as a “condition or status”, legitimation is a process engaged in by companies to take them to such state (Brown and Deegan, 1998, p. 23). A process of legitimation may be engaged in by a company either to “gain or to extend legitimacy, to maintain its level of current legitimacy, or to repair or to defend its lost or threatened legitimacy.” (O’Donovan, 2002, p. 349)

The level of legitimacy is likely to vary between companies. Companies which are more visible to their stakeholders, and those who rely extensively on their social and political support, will require a greater level of legitimacy. For example, companies operating in environmentally sensitive industries will require a greater level of legitimacy than those companies that are operating in less sensitive industries.

However, a company does not need to ensure support from all of society. It is able to achieve legitimacy by gaining support from enough parties to ensure its survival (Johnson and Holub, 2003, p. 270). Thus, it is enough to “identify specific entities and choose legitimising tactics best suited to its chosen audience, since only these groups are able to confer or withdraw organizational legitimacy" (*ibid.*). If one recognizes that society is made up of various groups having different views of how companies should conduct their operations and unequal power or ability to influence their activities, a change of focus from society to those groups who are able to influence a company's legitimacy, either granting or withholding it, is warranted (Deegan 2002, p. 295). These key stakeholders have been designated by proponents of legitimacy theory as "relevant publics" (Buhr, 1998; Neu et al., 1998) or "conferring publics" (O'Donovan, 2002).

Legitimacy requires a reputation that must be retained, that is, it requires a company to convince its relevant publics that its activities are congruent with their values. Issues such as industrial conflict, social and environmental incidents, fraudulent or unethical management behaviour may threaten corporate legitimacy. If a company is seen to lack legitimacy then, at best, profits are short-term. This occurs because if a company is perceived by stakeholders not to comply with their expectations, those stakeholders may withdraw the support needed to ensure its continued existence. For example, consumers can reduce or eliminate the demand for its products; the supply of resources being used (such as financial capital and labour) can be limited; and legal restrictions on its operations may result (Deegan and Rankin, 1996, p. 54; Deegan, 2002, p. 293).

O'Donovan (2002, p. 348) suggests that a company can lose legitimacy even though it does not change its activities, either due to changes in the composition of its relevant publics or changes in their values. Changes in the values of relevant publics can occur due to (*ibid.*):

- changes in social awareness;
- pressures from regulatory or institutional sources;
- the influence of media;
- pressures from interest groups;
- corporate crises.

Companies are supposed to have activities which are congruent with social values and also to communicate that their activities are congruent with such values. These are the two dimensions in a company's efforts to gain, maintain or repair legitimacy, identified by Buhr (1998, p. 164): action, that is, congruence of the company's activities with social values; and presentation, that is, appearance of congruence with social values. Legitimacy can be at risk even when a company's activities accord with society's expectations because the company has failed to communicate that its activities are congruent with social values. Some authors have suggested that changing activities without communicating such changes is insufficient (Deegan *et al.*, 2000, p. 105; Deegan, 2002, p. 296; Newson and Deegan, 2002, p. 185). Moreover, companies can attempt to "achieve legitimacy by appearing to do the 'right things' or not be involved in doing the 'wrong things' when this appearance may have little in common with a company's actual" performance (Buhr, 1998, p. 165).

From such a perspective, SRD is seen as one of the strategies used by companies to seek acceptance and approval of their activities from society. It is seen as an important tool in corporate legitimation strategies, as it may be used to establish or maintain the legitimacy of the company by influencing public opinion and public policy. Legitimacy theory suggests that SRD provides an important way of communicating with stakeholders, and convinces them that the company is fulfilling their expectations (even when actual corporate behaviour remains at variance with some of these expectations). Legitimacy theory tries to explain companies' social responsibility activities and disclosure by reference to the values, norms, customs and attitudes of the wider society in which they operate (Hibbitt, 2004, p. 254).

Legitimacy theory is also considered by Gray *et al.* (1996, p. 47) to have two variants: whilst the first tends to be concerned with the legitimacy of individual companies within the capitalist system, the second is concerned with the legitimacy of the system as a whole. The second variant can be linked to classical political economy, and views SRD as part of an attempt to legitimise individual companies within the capitalist system and the system as a whole. While recognizing that the majority of the applications of legitimacy theory are consistent with bourgeois political economy, Gray *et al.* (1995a, p. 54) consider some applications of such theory – for example, by Patten (1991) and Guthrie and Parker (1991) – as being "concerned with systemic responses as well as intra-system mediations and thus, takes us beyond a simple bourgeois political economy."

With the exception of the study carried out by Guthrie and Parker (1989), which did not find conclusive evidence of disclosure linking corporate and social values in a longitudinal study of an Australian company (Broken Hill Proprietary Company, Ltd.), a majority of the empirical literature which tested legitimacy theory tends to lend it support.

Some studies found that the occurrence of particular events is followed by changes in the level of SRD, thus lending support to legitimacy theory. Companies disclose information in the wake of particular incidents such as an environmental disaster (an oil spill or gas explosion) that puts the companies in the spotlight (see, for example, Patten, 1992; Deegan *et al.*, 2000; Jantadej and Kent, 1999; Walden and Schwartz, 1997). Other studies used legitimacy theory to explain changes in disclosure around the time of exposure to legal proceedings (Deegan and Rankin, 1996), fines (Warsame *et al.*, 2002) or privatization operations (Ogden and Clarke, 2005). The relationship between media exposure of certain industries and disclosure has also been explored from a legitimacy theory framework (Brown and Deegan, 1998). Other studies examined one single company over time (see, for example, Buhr, 1998; Deegan *et al.*, 2002) finding supportive evidence of legitimacy theory. Some authors use textual analysis in case studies (Moerman and Van Der Laan, 2005). Finally a large array of studies used a variety of proxies for the public exposure of companies, such as size, industry type, profitability, media exposure, membership of pressure groups (see, for example, Adams *et al.*, 1998; Archel, 2003; Campbell, 2003, 2004; Campbell *et al.*, 2003; Clarke and Gibson-Sweet, 1999; Cormier and Magnan, 2003; Hibbitt, 2004; Mobus, 2005; Newson and Deegan, 2002; Neu *et al.*, 1998; O'Dwyer, 2003; Patten, 1991; Wilmshurst and Frost, 2000) obtaining more or less supportive evidence of legitimacy theory.

4.5 Discussion and concluding comments

Only in specific types of empirical studies it is possible to separate the analysis of SRD from the analysis of CSR performance. In studies such as those which explore the determinants of SRD, the analysis of disclosure is also at least partially an analysis of performance. In effect, some studies use SRD as a measure of a company's performance in that area (Bansal, 2005). However, it is very difficult to determine whether social performance data disclosed by companies are under-reported or over-reported. On the other hand, there is evidence suggesting that SRD reflect impression management rather than accurate disclosure.

In this respect, Epstein (2004, p. 4) argues that "increased social disclosures may have improved corporate accountability but may not have improved social and environmental performance." But even the accountability credentials of voluntary corporate SRD is questioned by authors, such as Adams (2004), who contend that there is a reporting-performance portrayal gap, which is made visible by comparing voluntary corporate SRD with information from other, more independent, sources. In effect, several studies have concluded that voluntary SRD reflects impression management rather than accurate disclosure, that is, disclosure does not correspond to actual performance. Voluntary disclosure that is subject to considerable discretion by management is cited as a reason for such gap. Thus, voluntary corporate SRD can be seen as a communication mechanism through which companies try to comply with pressures to conform to socially acceptable norms. In many cases, real performance is not accompanied but rather substituted by disclosure. Owen *et al.* (2001, p. 275) speak of a "«soft» form of accountability, whereby organizations engage in stakeholder dialogue for the purpose of voluntary self-reporting on their trustworthiness as part of a reputation building process."

Considerations such as these led several authors to speak of a situation of "managerial capture", referring to the "concept that sees management take control of the whole process (including the degree of stakeholders' inclusion) by strategically collecting and disseminating only the information it deems appropriate to advance corporate image, rather than being truly transparent and accountable to the society it serves." (Owen *et al.*, 2000, p. 85)

Nonetheless, to analyse SRD corresponds also, at least partially, to analyse CSR. SRD is likely to be associated in some ways with social performance. Companies which have more reason to have a good social performance will also have more activity to describe and thus their disclosure may be higher (Campbell *et al.*, 2006, p. 102).

Referring to the particular case of annual reports, Bansal (2005, p. 207) suggests that in spite of some weaknesses, they provide a reliable data source for social responsibility assessment. She offers several arguments to support her assertion (*ibid.*): first, assessments of social responsibility from annual reports have been shown to be consistent with the evaluations by third-party agencies; second, annual reports are unobtrusive, so that companies cannot engage in research specific posturing as they can with interviews or surveys; finally, annual reports provide an opportunity to collect historical, time-sensitive data that are only otherwise available through employee recall, which is considered unreliable when evaluating the timing of an adoption decision.

Regarding the question of the methods to choose in order to collect empirical data on SRD, the author of this essay believes that it is all a question of the context in which the organisations operate, and the purpose of the study. For example, if the study one wishes to make is about the value relevance of SRD, then it is appropriate to place a high weighting on quantitative disclosures. In other cases, it will probably be adequate not to introduce a bias towards social responsibility of a financial kind by using such method.

As to the quantification issue, it is always preferable to use a method which allows the measurement of the extent of information disclosure, thus reflecting the emphasis that companies attach to the information disclosed. This applies in particular to the case of longitudinal studies, especially if one is analysing the SRD practices of one single company over time.

However, given the higher degree of subjectivity involved in using these methods, if the use of an index allows a proper detection of variation between companies' disclosure (and this is the objective of using the method), then it is adequate. Nonetheless, there are cases in which it is difficult to detect variation between companies' disclosure by using an index because of widespread disclosure of social responsibility information. In these situations there is probably no other solution than to use methods which permit measuring the volume of SRD.

The theoretical issues are particularly contentious. Findings which are interpreted as being consistent with one particular theory might, in most cases, be interpreted using a different theoretical perspective. For example, Berthelot *et al.* (2003, p. 118) argue that findings that seem consistent with legitimacy theory explanations may be interpreted also in light of explanations put forward by other theories. For instance, "increased voluntary environmental disclosure by a company following an ecological accident may be an attempt to legitimize its environmental management (legitimacy theory) but it can also be a mean to avoid new regulations for its industry or actions by pressure groups (reduction of proprietary costs)" (*ibid.*).

Based on a legitimacy theory framework, Patten (1991) used company size and industry affiliation as proxies for public pressure. He analysed the relationship between SRD and the two public pressure proxies and, in addition, profitability. The public pressure variables were found to be significantly associated with SRD in his study, whereas profitability was not. Given that size (see, for example, Belkaoui and Karpik, 1989) and industry (see, for example, Ness and Mirza, 1991) are also factors that positive accounting theorists have used to test the political cost hypothesis, some argue that the findings associated to relations with the level of SRD probably "are not an adequate basis on which to distinguish between the two positions" (Milne, 2002, p.

383).

It is true that both economic theories, such as those referred to above, and legitimacy theory, posit there is a positive association between social/political visibility and SRD, and use as proxies of size and industry affiliation for such visibility. However the arguments presented to explain such association differ. For example, according to positive accounting theory, large or highly profitable companies are seen as vulnerable to political interference. These companies use several strategies to reduce their political exposure, including social responsibility programmes.

The social visibility argument used by legitimacy theory is different. Particular companies, especially those which are large or operate in socially-sensitive industries, are seen as more exposed to pressures from social activist groups that seek socially responsible behaviour. Socially visible companies are seen as responding to such challenges by using several legitimation strategies, which may include SRD, to manage public impressions and reduce their exposure to the social and political environment.

As emphasised by Hibbitt (2004, p. 9), "as with all research in the social sciences, including economics and accounting, 'truth' is a matter of meta-theoretical belief not empirical fact." This fact leads to an almost total impossibility of asserting "with absolute authority which particular theoretical perspective offers the more convincing explanation." (*ibid.*) Thus, it is important to recognize that it remains a matter of subjective belief as to which of the possible theoretical explanations is the more acceptable, remaining "a matter of personal belief influenced by socio-political ideology" the preference for the explanation offered (*op. cit.*, p. 415).

Even if the researcher is inclined to use social and political theories due to a matter of personal belief probably influenced by socio-political ideology, some additional questions arise. For example, although legitimacy theory has been recently considered as the dominant theory in the SRD research (Hoogiemstra, 2000, p. 55), social and political theories, particularly legitimacy and stakeholder theories, should be considered as complementary rather than alternative or opposite (Gray *et al.*, 1995a, p. 52). According to Campbell *et al.* (2003, p. 559) legitimacy theory may be conceived as "a subsidiary theory of the stakeholder metanarrative in that a number of constituencies are recognized" that "takes a more descriptive view of how a company addresses and deals with those constituencies."

Because many factors affect companies' decisions to engage in CSR activities and disclosure, such as financial performance, stakeholders' pressure, public exposure and social concern, it is probably advisable to recognize that no single theory is sufficiently comprehensive to explain all these factors. Thus, to understand why companies engage in CSR activities and disclosure it is necessary to integrate different theoretical perspectives. This much has been acknowledge in several recent studies which adopt what might be called, in the wake of Cormier *et al.* (2005), multi-theoretical frameworks (see, for example, Bansal, 2005; Cormier *et al.*, 2005; Hillman and Keim, 2001; Oliver, 1997).

However, one problem with attempts to combine different bodies of theory to explain organizational behaviour is that they are often incommensurable/incompatible in some important aspects. The theories often focus on different core concepts. A multi-theoretical framework should focus on common core concepts. For example, it is possible to build a theoretical framework which is able to address the two major influences on companies' SRD, both those related to the socio-political context within which companies operate and those related to economic incentives, by combining stakeholder and legitimacy theories with resource-based perspectives (Branco and Rodrigues, 2006b).

Both legitimacy theory and resource-based perspectives can be conceived as subsidiary theories of the stakeholder metanarrative. Thus, these perspectives can be explored by using stakeholder theory insights. On the other hand, organisational legitimacy and organisational reputation are considered to have similar antecedents, and social construction processes and consequences (Deephouse and Carter, 2005). The fundamental aspect is that legitimacy requires a reputation that must be retained. It requires a company to convince its relevant publics that its activities are congruent with their values. Thus, reputation and legitimacy are inextricably linked.

Part II

Empirical contributions in corporate social responsibility and social responsibility disclosure

Chapter 5

Factors influencing social responsibility disclosure by Portuguese listed companies

5.1 Introduction

Most of the empirical studies on social responsibility disclosure (SRD) have focused on the annual report, which is considered to be the most important tool used by companies to communicate with their stakeholders (see, for example, Gray *et al.*, 1995b; Neu *et al.*, 1998). However, the Internet has become an important medium through which companies can disclose information of different natures. Thus, some recent studies analysed companies' web pages as a SRD medium and have compared SRD through the Internet with similar disclosure in annual reports (see, for example, Williams and Pei, 1999; Patten and Crampton, 2004; Frost *et al.*, 2005).

The purpose of this essay is to understand SRD, both on the Internet and in annual reports, by developing and testing a series of hypotheses. The strategy adopted is to examine a sample of companies, and use proxies for explanatory factors related to company characteristics, such as size, financial performance, leverage or industry affiliation, and media exposure. The same kind of association as the one established by research based on corporate annual reports is proposed for Internet SRD. The nature of SRD in annual reports and on the Internet by a sample of companies with shares listed in the Portuguese Stock Exchange (*Euronext – Lisbon*) is analysed. Using content analysis, SRD is classified in terms of theme (environment, human resources, products and customers and community involvement).

Companies are considered to engage in corporate social responsibility (CSR) activities and disclosure because of two different kinds of motivations. Some companies expect that having good relations with their stakeholders will lead to increased financial returns by assisting in developing valuable intangible assets (resources and capabilities). These assets can be sources of competitive advantage because they can differentiate a company from its competitors. Other companies engage in CSR activities and disclosure to conform to stakeholder norms and expectations about how operations should be conducted, thus constituting mainly a legitimacy instrument used by a company to demonstrate its adherence to such norms and expectations. Although some companies engage in CSR activities and disclosure because their managers' personal values are aligned with CSR values, this aspect will not be explored in this essay.

Whereas the first kind of motivations may be explored through a resource-based perspective analytical lens (see, for example, Branco and Rodrigues, 2006b; Hasseldine *et al.*, 2005; Toms, 2001) the second kind is consistent with social and political theory explanations, in particular legitimacy theory (see, for example, Deegan, 2002; Deephouse and Carter, 2005; Neu *et al.*, 1998; Patten and Crampton, 2004; Zimmerman and Zeitz, 2002).

The results are interpreted through the lens of a multi-theoretical framework which combines these two perspectives, according to which companies disclose social responsibility information mainly to present a socially responsible image so that they can legitimise their behaviours to stakeholder groups and influence the external perception of reputation. Companies with a higher visibility seem to exhibit greater concern to improve corporate image through SRD. Results suggest that the framework proposed may be an explanation of SRD by Portuguese listed companies.

In the following section, the theoretical framework used is presented. Thereafter follow sections on hypotheses development, methodology, results and discussion. Finally, some conclusions are drawn.

5.2 Theoretical framework

Two major influences on companies' SRD are acknowledged in this essay: those related to the socio-political context within which companies operate; and those related to economic incentives. In the SRD literature, the former group of influences is identified with the so-called "social and political theories" (Gray *et al.*, 1995a) such as political economy, legitimacy and stakeholder theories. The economic incentives viewpoint is consistent with research that explains SRD in the context of agency theory, information economics perspectives and resource-based perspectives.

The theoretical framework adopted incorporates both influences, by adopting institutional theory perspectives, specifically legitimacy theory (see, for example, Deegan, 2002; Deephouse and Carter, 2005; Neu *et al.*, 1998; Patten and Crampton, 2004; Zimmerman and Zeitz, 2002), and resource-based perspectives (see, for example, Branco and Rodrigues, 2006b; Hasseldine *et al.*, 2005; Toms, 2001). Some authors provide important studies in which similar combinations are attempted (see, for example, Bansal, 2005).

In this essay, companies are considered to engage in some form of stakeholder management, driven by two different kinds of motivations. Some companies believe that being and being seen as socially responsible will bring them a competitive advantage, allowing them to achieve better economic results. They expect that having good relations with their stakeholders will lead to increased financial returns by assisting in developing valuable intangible assets (resources and capabilities) which can be sources of competitive advantage because such assets can differentiate a company from its competitors. These motivations are consistent with a resource-based perspective analytical lens.

Other companies engage in CSR activities and disclosure because of external pressures. They either conform to what other companies do, because they believe that not doing so would harm them in terms of their profitability and survival, or respond to discrediting events, which they believe to be detrimental to their profitability and survival and must be addressed to mitigate their effects. CSR activities and disclosure appear as mechanisms these companies use to act and be seen acting within the bounds of what is considered acceptable according to the expectations of stakeholders on how their operations should be conducted. Social responsibility activities and disclosure constitute mainly a legitimacy instrument used by a company to demonstrate its adherence to such expectations. These motivations are consistent with social and political theory explanations, in particular legitimacy theory.

From a resource-based perspective the benefits of CSR are, to a great extent, related to their effect on corporate reputation (Branco and Rodrigues, 2006b). Companies with a good social responsibility reputation are able to improve relations with external actors such as customers, investors, bankers, suppliers and competitors. They also attract better employees or increase current employees' motivation and morale as well as their commitment and loyalty to the company, which in turn may improve financial outcomes. Disclosure of information on a company's behaviours and outcomes regarding social responsibility helps to build a positive image with stakeholders.

SRD is particularly important in enhancing the effects of CSR on corporate reputation. It might be considered a signal of improved social and environmental conduct and hence reputation in those fields because disclosure influences the external perception of reputation. It will be difficult for companies investing in social responsibility activities, likely to create positive reputation, to realise the value of such reputation without making associated disclosures (Hasseldine *et al.*, 2005; Toms, 2002).

Probably the most important weakness of resource-based perspectives is related to the lack of understanding they provide on the influence that the relationships between a company and its environment have on the company's success (Branco and Rodrigues, 2006b). This is why in this essay a resource-based perspective is combined with social and political theories, in particular legitimacy and stakeholder theories. However, these theories are considered complementary rather than alternative or opposite (Gray *et al.*, 1995a, p. 52), with legitimacy theory considered a perspective which is clearly consistent with stakeholder theory, and with both theories enriching each other.

The institutional perspective of legitimacy theory is one of the dominant theories in SRD research (see, for example, Deegan, 2002; Neu *et al.*, 1998; Patten and Crampton, 2004). The analytical focus of legitimacy theory's institutional perspective is on social legitimacy, which refers to the acceptance of a company by its social environment, and external constituents. Companies consider the expectations of various social constituents in their behaviour in order to achieve social legitimacy. Legitimacy "is a social judgment of appropriateness, acceptance, and desirability" (Zimmerman and Zeitz, 2002, p. 418). The importance of social legitimacy comes from the theoretical assumption that companies are embedded in the social environment in which they operate, and that their performance and expectations are affected by the environment. The company's success, even survival, is determined by this interface.

SRD is seen, from such a perspective, as one of the strategies used by companies to seek acceptance and approval of their activities from society. It is seen as an important tool in corporate legitimation strategies. It is used to establish or maintain the legitimacy of the company because it may influence public opinion and public policy. Legitimacy theory suggests that SRD provides an important way of communicating with stakeholders, to convince them that the company is fulfilling their expectations (even when actual corporate behaviour remains at variance with some of these expectations).

One problem regarding attempts to combine different bodies of theory to explain organizational behaviour is that they are often incommensurable or incompatible in some important aspects. The theories often focus on different core concepts. A multi-theoretical framework should focus on common core concepts.

Legitimacy theory and resource-based perspectives are believed to be useful as they can be conceived as using what Campbell *et al.* (2003, p. 559) call "the stakeholder metanarrative". Thus, these perspectives can be explored by using stakeholder theory insights. On the other hand, organisational legitimacy and organisational reputation are considered to have similar antecedents, social construction processes and consequences (Deephouse and Carter, 2005). This essay refers to these two interrelated concepts: that of legitimacy, which is explored from an institutional perspective; and that of reputation, which is explored from a resource-based perspective.

For the purposes of this essay, the fundamental aspect is that legitimacy requires a reputation that must be retained. It requires a company to convince its relevant publics that its activities are congruent with their values. Thus, reputation and legitimacy are inextricably linked and in this essay the distinction between the two will not be explored further.

5.3 Development of hypotheses

In what follows, explanations for SRD based on the theoretical framework presented in the previous section are developed by selecting the most relevant factors influencing SRD. To analyse the usefulness of the theoretical framework proposed above, this essay adopts the strategy of examining a sample of companies and using a variety of proxies for a company's social visibility related to its characteristics and media exposure. Variables are chosen to represent particular aspects of social visibility, and in each case, an expectation regarding its relationship to SRD is stated based on prior literature.

5.3.1 International experience

International experience is developed by operating in, and depending upon, foreign markets (Bansal, 2005). The importance of international experience as a determinant of SRD can be explained from the perspective of social and political theories (Choi, 1999) and a perspective which is resource-based (Bansal, 2005).

The manner in which the role of a company, and its stakeholders, is defined in a country, will undoubtedly affect SRD practices. Operating in foreign markets requires companies to consider national differences in customer needs. These are influenced by the culture and customs of that country. Companies are exposed also to a greater extent to the laws, rules and regulations governing trade within different countries. Companies frequently need to recognize the value of achieving high environmental and social standards in order to facilitate their license to operate in some countries.

On the other hand, as Bansal (2005) argues, companies with international experience can leverage knowledge acquired in different jurisdictions and develop a set of best practices based on their collective learning. Capabilities in systems integration are useful for CSR practices because of the wide range of functional areas to which it applies (*ibid.*).

H_1: There will be a positive relationship between the degree of international activity and SRD.

5.3.2 Company size

Company size is usually used as a proxy for social visibility. SRD is related to corporate size, with large companies disclosing more than smaller ones (see, for example, Adams *et al.*, 1998; Archel, 2003; Neu *et al.*, 1998; Patten, 1991; Purushothaman *et al.*, 2000). The larger the company, the higher the visibility, and the greater the disclosure. Larger companies, probably because of visibility issues, are subject to greater public scrutiny than smaller companies. They are under greater pressure to behave in more socially responsible manner and are more likely to disclose social responsibility information. It is also more likely that larger, more visible companies will consider social responsibility activities and disclosure as a way of enhancing corporate reputation.

H_2: There will be a positive relationship between size and SRD.

5.3.3 Industry affiliation

Another commonly used proxy for social visibility is industry affiliation. This was found to be related to SRD by legitimacy theory studies. Industries with high public visibility, or a potentially more important environmental impact, or having less favourable public images were found to disclose more social responsibility information than their counterparts (see, for example, Adams *et al.*, 1998; Archel, 2003; Clarke and Gibson-Sweet, 1999; García-Ayuso and Larrinaga, 2003; Patten, 1991).

There are reasons to suspect that industry affiliation is related to certain categories of SRD. Companies in industries with larger potential environmental impact are more likely to provide environmental information and companies in industries with high visibility among final consumers are more likely to consider important issues of community involvement and disclose information related to such involvement (Clarke and Gibson-Sweet, 1999).

Thus, this essay suggests that the classifications of industries should be refined in order to provide more reliable tests. Two types of proxies for social exposure related to industry affiliation which were proposed in previous studies are used: "consumer proximity" (see, for example, Campbell *et al.*, 2006; Clarke and Gibson-Sweet, 1999) and "environmental sensitivity" (see, for example, Archel, 2003; García-Ayuso and Larrinaga, 1997; Patten, 2002b). The different proxies for social exposure are believed to be related to different SRD categories: community disclosure is expected to be related positively with a measure of proximity to the final consumer, whereas environmental disclosure is expected to be related positively with a measure of environmental sensitivity.

5.3.3.1 Consumer proximity

The nearer a company is to the individual consumer, the more probable is its name to be known to most members of the general public, and hence, the greater will be its social visibility. Thus, it is hypothesized that community involvement disclosure is associated with the measure of a company's proximity to the final consumer.

H_{3a}: *There will be a positive relationship between community involvement disclosure and the consumer proximity measure.*

5.3.3.2 Environmental sensitivity

Companies in industries that have a larger potential impact on the environment are considered to be subject to greater pressures with respect to environmental concerns than companies in industries with less risk in terms of environmental impact. Therefore, companies in environmentally sensitive industries are more likely to disclose environmental information than companies in less environmentally sensitive industries.

H_{3b}: *There will be a positive relationship between environmental disclosure and the environmental sensitivity measure.*

5.3.4 Media exposure

Brammer and Millington (2006, p. 8) draw attention to the distinction between organizational visibility and issue visibility. They argue that there is a general propensity for companies with higher visibility to be more socially responsive, and that a company's visibility often derives from its association with issues that are highly visible to stakeholders. Empirical evidence suggests that SRD increases when social and environmental issues are the focus of media attention. For example, Neu *et al.* (1998) allege that to the importance placed on environmental responsibility leads to increased environmental disclosure; and Brown and Deegan (1998) contend that to media coverage of an industry's environmental implications has a similar effect.

Thus, several studies suggest that individual companies' media exposure, which is used as a proxy for social visibility, is likely to be associated to generate higher levels of SRD (Bansal, 2005; Brammer and Pavelin, 2004b, in press; Bewley and Li, 2000; Cormier *et al.*, 2004; Cormier *et al.*, 2005; Deegan *et al.*, 2002; García-Ayuso and Larrinaga, 2003).

H_4: There will be a positive relationship between SRD and the media exposure measure.

5.3.5 Control variables

Control variables that are designed to account for other potential influences on SRD practices have been analysed in the SRD literature, are introduced. Prior researchers argue that social responsibility activities and disclosure are dependent on the availability of financial resources within a company (for example, Brammer and Pavelin, in press; Roberts, 1992). Following Brammer and Pavelin (in press), profitability and leverage are used in this essay to capture the availability of financial resources within a company. These variables are included as control variables.

5.3.5.1 Profitability

Several empirical studies have concluded that profitability does not appear to be a significant determinant of SRD (for example, Archel, 2003; Brammer and Pavelin, in press; García-Ayuso and Larrinaga, 2003; Patten, 1991; Purushothaman *et al.*, 2000; Williams, 1998). From a legitimacy theory perspective, profitability can be considered to be related positively or negatively to SRD (Neu *et al.*, 1998). On the other hand, from a stakeholder perspective (Roberts, 1992), economic performance is expected to be associated positively with social responsibility activities and disclosure.

In view of the existence of these results and different interpretations, the association between this variable and SRD is tested without making any a priori assumption about the sign of such association (see, for example, Archel, 2003; Bewley and Li, 2000; García-Ayuso and Larrinaga, 2003; Purushothaman *et al.*, 2000).

5.3.5.2 Leverage

The power of creditors as a stakeholder group depends upon the degree to which a company relies on debt financing (Roberts, 1992). Some studies have found a positive relationship between leverage and SRD (for example, Choi, 1999; García-Ayuso and Larrinaga, 2003; Purushotaman *et al.*, 2000; Roberts, 1992) whereas others have found a negative association (Belkaoui and Karpik, 1989) or no association (Neu *et al.*, 1998). Noting a lack of conclusiveness in the studies which explore this relationship, Purushothaman *et al.* (2000, p. 112) point out that companies with high leverage may have closer relationships with their creditors and use other means to disclose social responsibility information. Thus, in this essay the association between this variable and SRD is tested without making any a priori assumption about the sign of such association.

5.4 Methods

5.4.1 Empirical models

The statistical analysis conducted in this essay includes the use of multiple linear regression models to analyse the relationship between total SRD and each one of its categories, both in annual reports and on the Internet, and the influencing factors referred in the previous section. Ten models are examined. The models all use the same influencing factors discussed in section 5.3. However, there are ten different dependent variables: (1) annual report total SRD (SRDAR); (2) Internet total SRD (SRDI); (3) annual report environmental disclosure (EDAR); (4) Internet environmental disclosure (EDI); (5) annual report human resources disclosure (HRDAR); (6) Internet human resources disclosure (HRDI); (7) annual report products and customers disclosure (PCDAR); (8) Internet products and customers disclosure (PCDI); (9) annual report community involvement disclosure (CIDAR); and (10) Internet community involvement disclosure (CIDI).

The approach adopted in the empirical analysis is summarized by the following general form of the models:

SRD disclosure index = f (international experience, size, media exposure, consumer proximity, environmental sensitivity, control variables)

The general form of the models examined is thus stated as:

$DISC_i = ß_{0i} + ß_{1i}IE_i + ß_{2i}S_i + ß_{3i}ME_i + ß_{4i}CP_i + ß_{5i}ES_i + ß_{6i}Profit_i + ß_{7i}Lev_i + u_i$

Where, for company i:

$DISC_i$:	SRD index ($SRDAR_i$; $SRDI_i$; $EDAR_i$; EDI_i; $HRDAR_i$; $HRDI_i$; $PCDAR_i$; $PCDI_i$; $CIDAR_i$; $CIDI_i$);
IE_i:	international experience;
S_i:	size;
ME_i:	media exposure;
CP_i:	consumer proximity;
ES_i:	environmental sensitivity;
$Profit_i$:	profitability;
Lev_i:	leverage;
u_i:	error term.

5.4.2 Operationalisation of variables

5.4.2.1 International experience

Following Bansal (2005), international experience is measured by the percentage of sales outside Portugal to total sales as reported in the segment data of the financial statements (see also Choi, 1998; Depoers, 2000).

5.4.2.2 Company size

Because there are no theoretical reasons which might clearly justify choosing a particular measure of size (Hackston and Milne, 1996, p. 87), the measure used in this essay is total assets, as reported on the balance sheet (Brammer and Pavelin, 2004b; Haniffa and Cooke, 2005).

5.4.2.3 Industry affiliation

Because it is suggested in this essay that the classifications of industries should be refined to provide more reliable tests of the theoretical framework used, two types of proxies for social exposure related to industry affiliation are used: "consumer proximity" and "environmental sensitivity". The different proxies for social exposure are believed to be related to different SRD categories: community disclosure is expected to be related positively to a measure of consumer proximity, whereas environmental disclosure is expected to be related positively to a measure of environmental sensitivity.

Consumer proximity

In this essay, a binary measure (high profile and low profile) is used. High profile companies are those that are better known to the final consumer and whose names are expected to be known to most members of the general public. Based on prior literature, high profile companies are identified as those in the following sectors: household goods and textiles, beverages, food and drug retailers, telecommunication services, electricity, gas distribution, water and banks. All others are considered "low profile". A one/zero variable is used to designate companies from these industries: one if the company is from a high profile sector, and zero if it is from a low profile sector.

Environmental sensitivity

The majority of studies which selected environmental sensitivity as a proxy for social pressure mainly used only environmental disclosure as a category of SRD (see, for example, García-Ayuso and Larrinaga, 1997; Patten, 2002b; Bewley and Li, 2000).

In this essay, "more sensitive" industries are considered to be those with more risk of being criticised in environmental matters because of their activities involving higher risk of environmental impact (such has natural resource depletion or pollution). Thus, based on prior literature, the following "more sensitive" sectors are identified: mining, oil and gas, chemicals, construction and building materials, forestry and paper, steel and other metals, electricity, gas distribution and water. All others are considered as "less sensitive". A one/zero variable is used to designate companies from these industries: one if the company is from a more sensitive industry and zero if it is from a less sensitive industry.

5.4.2.4 Media exposure

To develop a measure of the companies' media exposure, the number of articles in two Portuguese newspapers was counted. Company exposure was measured by perusing “Jornal de Notícias” and “Expresso”, for the period between 1 January 2001 and 31 December 2003. The search facilities present on the web pages of these newspapers were used. A search was carried out for each company, using as a keyword, the name of the company. The search results were examined to exclude articles that did not relate specifically to social responsibility issues.

5.4.2.5 Control variables

Profitability and leverage are used in this essay to capture the availability of financial resources within the company. These two variables are used as control variables.

<u>Profitability</u>

When measuring corporate performance one can use accounting or market-based measures. In contrast with accounting-based measures, market-based measures are less subject to bias by managerial manipulation and they do not rely on past performance (McGuire *et al.*, 1988, p. 859). However, they are based on investors’ viewpoints on company performance, thus ignoring other stakeholder groups (*ibid.*). This is the main reason for adopting an accounting-based variable in this essay.

Thus, return on assets (ROA) is used as a measure for economic performance (Belkaoui and Karpik, 1989; Bewley and Li, 2000; Brammer and Pavelin, in press; Cormier *et al.*, 2004; Leventis and Weetman, 2005; Patten, 1991; Magness, 2006). ROA is measured by the ratio Net income / total assets (Belkaoui and Karpik, 1989; Leventis and Weetman, 2005).

<u>Leverage</u>

Leverage is measured by the ratio Total debt / total assets (see, for example, Belkaoui and Karpik, 1989; Brammer and Pavelin, in press; Depoers, 2000; Suwaidan *et al.*, 2004).

5.4.3 Sample

The sample used in this essay comprises listed companies, as they are more likely to disclose social responsibility information, and have a web page that provides SRD. To be included in the sample for this essay, a company had to:

- have its shares listed on the Portuguese Stock Exchange (*Euronext – Lisbon*) by the end of 2003,
- have its 2003 annual report available for review, and
- have an accessible corporate web page on the Internet by August 2004.

The initial sample included all companies listed on *Euronext – Lisbon* at 31 December 2003. From the initial 57 listed companies (50 of them listed on the main market and seven on the second market), a final sample of 49 companies was identified, as described in Table 5.1. Two companies were excluded because they are not subject to Portuguese law (non-resident companies).

The web page of the Portuguese Securities Market Commission (Comissão do Mercado de Valores Mobiliários – CMVM) was used to obtain the 2003 annual reports for sample companies. The annual report of one of the companies was not available on the CMVM web page because it ceased being listed after 31 December 2003. This led to the exclusion of this company from the sample.

In August 2004, the 54 companies which composed the sample were surveyed to determine whether they had an accessible web page. Out of these, 2 did not have an accessible web page, and they were excluded from the sample. Of the remaining 52 companies, a further three were omitted because only those having a fully functioning web page (that is, not under construction or maintenance) were included. The final sample is composed of 49 companies (see Appendix 5.1).

Table 5.1: Identification of the sample

Description	Main Market	Second Market	Overall
Companies listed on Euronext Lisbon at 31 December 2004	50	7	57
Less:			
Companies not subject to Portuguese law	2	0	2
Companies without annual report for 2003	1	0	1
Companies without web page	1	1	2
Companies with web page under construction or maintenance	3	0	3
Final sample	43	6	49

The companies included in the sample are classified according to sectors using the FTSE Global Classification System. This classification system comprises the several sectors which are considered in Table 5.2.

Table 5.2: Sample companies by sector

FTSE Sector	n.	%
Automobiles and parts	1	2.04
Banks	6	12.24
Beverages	2	4.08
Chemicals	2	4.08
Construction and building materials	8	16.33
Electricity	1	2.04
Electronic and electrical equipment	1	2.04
Engineering and machinery	1	2.04
Food and drug retailers	3	6.12
Food producers and processors	2	4.08
Forestry and paper	6	12.24
Household goods and textiles	1	2.04
Leisure, entertainment and hotels	3	6.12
Media and photography	3	6.12
Software and computer services	4	8.16
Telecommunication services	2	4.08
Transport	3	6.12
Total	49	100.00

%: Number of companies in the sector as a percentage of total sample

As shown in Table 5.2, the sample comprises 49 companies. Construction and building materials is the sector which presentes the largeest number of companies (8 companies and around 16% of the total). Banks and Forestry and paper are the sectors which follow in terms degree of importance (each of them with 6 and about 24% taken together).

5.4.4 Data collection

To measure the level of social responsibility information disclosed by sample companies, this essay uses “content analysis”. This technique consists of classifying the information disclosed into several categories of items which capture the aspects of social responsibility one wants to analyse.

The simplest form of content analysis consists of detecting the presence or absence of information (see, for example, Haniffa and Cooke, 2005; Leventis and Weetman, 2005; Magness, 2006; Patten, 2002b; Purushothaman *et al.*, 2000; Suwaidan *et al.*, 2004). One of the main shortcomings of this form of content analysis is that it does not allow the measurement of the extent of information disclosure and, therefore, the coded data does not reflect the emphasis that companies attach to each information item (Zéghal and Ahmed, 1990, p. 42). However, the number of different topics discussed is considered as a reasonable measure of management’s willingness to provide social responsibility information in general (Bewley and Li, 2000, p. 206). On the other hand, the author of this essay considers it to be a more appropriate method than counting of sentences, words or proportion of pages when one is comparing such different media of disclosure as annual reports and web pages.

Thus, the analysis of the SRD is made using an equal-weighted index, that is, a scoring system which assigns a point for each SRD theme pertaining to any of the categories considered. Disclosure scores for each company are added and not weighted, because it is assumed that each item of disclosure is equally important.

Listed companies’ 2003 annual reports were analysed. Only the sections of the annual report where the disclosure of social responsibility information is voluntary were analysed, namely the chairman’s report or letter to the shareholders and the management report.

Each of the companies’ web pages was accessed and analysed during the month of August 2004. The entire web pages were examined. All links were followed, but for the following exclusions:

- neither on-line copies of the annual report (Patten and Crampton, 2004) nor on-line copies of social and/or environmental reports, where available, were included in the web page analysis;
- links to external press release disclosures were also not followed (but

press releases of the companies were examined for SRD) (Patten and Crampton, 2004);

- links to company publications such as newsletters or products catalogs were not followed.

The reason for the exclusions referred in the preceding paragraph is the purpose of collecting segregated data on the two media analysed (Frost *et al.*, 2005, p. 91). This is done because the focus is on the comparison of the social responsibility information that companies choose to highlight on their web pages with similar information disclosed on their annual reports.

Several empirical studies in the area were of great utility in developing the SRD index used (see, for example, Archel, 2003; Adams *et al.*, 1998; Deegan *et al.*, 2002; Gray *et al.*, 1995b, Hackston and Milne, 1996; O'Dwyer and Gray, 1998; Patten, 1991; Purushothaman *et al.*, 2000; Williams, 1999; Williams and Pei, 1999). SRD refers in this essay to disclosures in the following four categories:

- environmental;
- human resources;
- products and consumers;
- community involvement.

Environmental disclosure comprises disclosures relating to environmental policies, environmental management system and environmental awards (including ISO 14001 and *Eco Management and Audit Scheme* – EMAS), the environmental impacts of products and processes, environmental related expenditures, the environmental benefits of products, conservation of natural resources and recycling activities, and disclosures concerning energy efficiency. Human resources disclosure covers such issues as employee numbers and remuneration, employee share ownership, employee consultation, training and education, employment of minorities or women, and trade union information. Products and consumers disclosure encompasses disclosures related to product quality (for example, third party recognition for the quality of the company's products) and consumer relations (for example, customer complaints). Community involvement disclosure includes disclosures relating to sponsorship (e.g. of art exhibits), as well as charitable donations and activities.

The total maximum score is of 30. The maximum score for each of the categories considered is of 11 for environmental disclosure, 9 for human resources disclosure, 5 for products and consumers disclosure, and 5 for community involvement disclosure (see Table 5.5).

To avoid penalizing companies for not disclosing items considered irrelevant to them, these items were excluded. This is the case with Banks and Software and computer services sectors, particularly regarding some of the environmental disclosure items (pollution arising from use of product, discussion of specific environmental laws and regulations, prevention or repair of damage to the environment, environmental aesthetics and energy efficiency of products) and some of the products and consumers disclosure items (safety and customer safety practices). The same is thought to be the case with companies from the Leisure, entertainment and hotels sectors, but only regarding environmental disclosure items.

Thus, the disclosure score indexes are constructed to take into account these considerations:

$$\sum_{i=1}^{m_j} \frac{d_i}{N}$$

This index expresses the level of disclosure for a company j, where N is the maximum number of relevant items a company may disclose and d_i is equal to 1 if the indicator i is disclosed, and 0 otherwise. When the disclosure score index is equal to 0, it indicates that company i does not disclose any item. Index values equal to $i = 1, \ldots, m_j$ mean that a level of disclosure is provided, and m_j is the maximum number of indicators d_i disclosed by a company j.

In the case of Banks and Software and computer services sectors, environmental information total score is 6; and for products and consumers, the total score is 3 (SRD total score of 23). In the case of companies from the Leisure, entertainment and hotels sector, environmental information total score is 6 (SRD total score of 25).

5.5 Results and discussion

5.5.1 Descriptive analysis

Results in Table 5.3 suggest that companies prefer the annual report as a SRD medium. They show that 11 companies do not present social responsibility information on the Internet whereas in the annual report the same happens with only 5 companies. For the annual report 44% of companies disclose 3 or 4 categories of social responsibility information, and 45% only disclose information related to one or two of the categories considered. On the Internet, 38% of the companies disclose 3 or 4 categories of social responsibility information, and 39% only disclose information related to one or two of the categories considered.

Table 5.3: SRD by category

No. of categories disclosed	Annual Reports		Web Pages	
	n	%	n	%
4	11	22	9	18
3	11	22	10	20
2	9	18	6	12
1	13	27	13	27
0	5	10	11	22
Total	49	100	49	100

%: Disclosing companies as a percentage of total sample

Results in Table 5.4 indicate that the kind of social responsibility information that more companies disclose in their annual reports is human resources information (90%), followed by products and consumers information (59%) and environmental information (47%). On the Internet, the kind of information that more companies provide is products and consumers information (53%), followed by human resources information (51%).

Comparison of the information disclosed on the Internet with similar information disclosed in the annual reports in Table 5.4 indicates that community involvement information is not disclosed as frequently both on the Internet and the annual reports. Community involvement disclosure is the only category regarding which the Internet is the preferred media of disclosure by companies (40% of the companies disclose this information on the Internet, whereas only 29% of them use the annual report to do so).

These results are similar to those reported by Clarke and Gibson–Sweet (1999) and can be interpret in a similar way. For example, Banks and Telecommunication services are sectors with a high visibility among consumers, and community relations disclosure is an important part of the SRD made by companies in these sectors. As expected, while few banks disclose environmental information, the percentage of retailers and telecommunication services disclosing such information is higher compared to banks.

On the other hand, as Clarke and Gibson-Sweet (1999) suggest, some industries have a larger potential impact on the environment but are not as close to the final consumer, and the public is less aware of them. A company less well-known to the public, and involved in activities with larger potential impact on the environment, would have less reason to justify its existence to society by means of community disclosures than a better known one. This seems to be the case of companies in the Chemicals, Construction and building materials and Forestry and paper sectors: a larger percentage of them disclose environmental information than community involvement information.

What seems more difficult to explain (and was not expected) are the results for environmental disclosures by companies in some environmentally sensitive sectors, such as Construction and building materials and Food producers and processors. These companies do not disclose more SRD than companies from other sectors, as might be expected. However, the fact that the companies included in the sample are listed on the second market, and are thus less visible, may explain the lack of disclosure, at least in part.

Comparison of the information disclosed on the Internet with similar information disclosed in the annual reports in Tables 5.4 and 5.5 indicates that environmental information and human resources information are more evident in annual reports than on the Internet, whereas the reverse is the case with community involvement information. The difference only seems to be relevant in the case of human resources information (the annual report is the preferred medium of disclosure) and community involvement information (the Internet is the preferred medium of disclosure). With respect to products and consumers information it is difficult to say whether it has a ctronger presence in annual reports or on the Internet.

As Zéghal and Ahmed (1990) argue, the choice of a medium for information disclosure is dependent on the target public for whom the message is intended. Because annual reports are directed at investors and human resources are an important resource, it is natural for investors to be interested in it. On the other hand, because company web pages are aimed at a broader public, including consumers, it is natural for companies to give prominence to community involvement and products/consumers information.

Table 5.4: Nature of SRD by sectors

Companies / Sector	Environmental disclosure Annual Reports n	Environmental disclosure Annual Reports %	Environmental disclosure Web Pages n	Environmental disclosure Web Pages %	Human resources disclosure Annual Reports n	Human resources disclosure Annual Reports %	Human resources disclosure Web Pages n	Human resources disclosure Web Pages %	Products and consumers diclosure Annual Reports n	Products and consumers diclosure Annual Reports %	Products and consumers diclosure Web Pages n	Products and consumers diclosure Web Pages %	Community involvement disclosure Annual Reports n	Community involvement disclosure Annual Reports %	Community involvement disclosure Web Pages n	Community involvement disclosure Web Pages %
Automobiles and parts	0	0	0	0	1	100	0	0	1	100	0	0	0	0	0	0
Banks	3	50	2	33	6	100	2	33	6	100	5	83	5	83	5	83
Beverages	1	50	2	100	2	100	2	100	2	100	1	50	0	0	1	50
Chemicals	2	100	2	100	2	100	2	100	1	50	2	100	1	50	2	100
Construction and building materials	6	75	3	38	7	88	4	50	6	75	6	75	3	38	2	25
Electricity	1	100	1	100	1	100	1	100	1	100	1	100	1	100	1	100
Electronic and electrical equipment	1	100	0	0	1	100	1	100	1	100	1	100	0	0	0	0
Engineering and machinery	1	100	1	100	1	100	1	100	0	0	1	100	1	100	1	100
Food and drug retailers	2	67	2	67	3	100	2	67	2	67	1	33	1	33	2	67
Food producers and processors	0	0	0	0	2	100	1	50	1	50	0	0	0	0	0	0
Forestry and paper	2	33	3	50	3	50	3	50	2	33	1	17	1	17	1	17
Household goods and textiles	0	0	0	0	1	100	1	100	0	0	1	100	0	0	1	100
Leisure, entertainment and hotels	1	33	1	33	3	100	0	0	1	33	0	0	0	0	0	0
Media and photography	0	0	0	0	2	67	0	0	1	33	0	0	0	0	1	33
Software and computer services	0	0	0	0	4	100	2	50	1	25	3	75	0	0	0	0
Telecommunication services	2	100	2	100	2	100	2	100	1	50	2	100	1	50	2	100
Transport	1	33	1	33	3	100	1	33	2	67	1	33	0	0	1	33
Total	23	47	20	41	44	90	25	51	29	59	26	53	14	29	20	41

%: Percentage of disclosing companies in the sector (except for the final line in the table where disclosing companies as a percentage of total sample is reported)

Table 5.5: SRD areas (categories in capital letter, items in small letter)

Categories and items of disclosure	Annual Reports		Web Pages	
	n	%	n	%
ENVIRONMENTAL DISCLOSURE				
Environmental policies or company concern for the environment	16	32.65	17	34.69
Environmental management, systems and audit	14	28.57	10	20.41
Pollution from business operations	11	22.45	9	18.37
Pollution arising from use of product	4	8.16	9	18.37
Discussion of specific environmental laws and regulations	4	8.16	1	2.04
Prevention or repair of damage to the environment	3	6.12	5	10.20
Conservation of natural resources and recycling activities	11	22.45	8	16.3
Sustainability	11	22.45	12	24.49
Environmental aesthetics	4	8.16	3	6.12
Conservation of energy in the conduct of business operations	10	20.41	7	14.29
Energy efficiency of products	1	2.04	2	4.08
HUMAN RESOURCES DISCLOSURE				
Employee health and safety	16	32.65	9	18.37
Employment of minorities or women	2	4.08	0	0.00
Employee training	29	59.18	5	10.20
Employee assistance/benefits	6	12.24	4	8.16
Employee remuneration	26	53.06	5	10.20
Employee profiles	32	65.31	19	38.78
Employee share purchase schemes	14	28.57	3	6.12
Employee morale	10	20.41	6	12.24
Industrial relations	7	14.29	0	0.00
PRODUCTS AND CONSUMERS DISCLOSURE				
Product safety	6	12.24	7	14.29
Product quality	25	51.02	23	46.94
Disclosing of consumer safety practices	1	2.04	4	8.16
Consumer complaints/satisfaction	12	24.49	10	20.41
Provision for disabled, aged, and difficult-to-reach consumers	3	6.12	5	10.20
COMMUNITY INVOLVEMENT DISCLOSURE				
Charitable donations and activities	10	20.41	14	28.57
Support for education	14	28.57	13	26.53
Support for the arts and culture	12	24.49	14	28.57
Support for public health	3	6.12	5	10.20
Sponsoring sporting or recreational projects	10	20.41	13	26.53

%: Disclosing companies as a percentage of total sample

Table 5.6 presents the results of the test on the difference between SRD in the annual reports and on the Internet. Both the Wilcoxon signed ranks test and the paired sample *t*-test indicate significant differences in total SRD and human resources disclosure (more disclosure in annual reports). Although the difference in community involvement disclosure is not statistically significant, there is an important difference between the Internet and annual reports as disclosure media (more disclosure on the Internet).

Table 5.6: Paired sample *t*-tests and Wilcoxon signed ranks test for SRD in annual reports and on the Internet

	Paired sample *t*-test			Wilcoxon test	
	Mean difference	*t*	Sig. (2-tailed)	*Z*	Asymp. Sig. (2-tailed)
Total SRD	0.063	3.452	0.001	-2.997a	0.003
Environmental disclosure	0.020	0.901	0.372	-0.316a	0.752
Human resources disclosure	0.206	6.949	0.000	-5.132a	0.000
Products and consumers disclosure	-0.008	-0.186	0.853	-1.333b	0.844
Community involvement disclosure	-0.041	-1.183	0.243	-1.183b	0.183

a Based on positive ranks (disclosure in annual reports > disclosure on the Internet).
b Based on negative ranks (disclosure in annual reports < disclosure on the Internet).

Table 5.7 contains descriptive statistics for the dependent variables (Panel A), the continuous independent variables (Panel B), and the categorical independent variables (Panel C), defined above. The means of the disclosure indices are consistent with what has been mentioned above. Regarding the continuous independent variables, there is evidence of a wide range of variation within the sample.

Table 5.7: Summary descriptive statistics of dependent and independent variables

Panel A: Dependent variables

Categories	Minimum		Maximum		Mean		Median		Std. Deviation		Skewness		Kurtosis	
	AR	WP	AR	WP	AR	WP	AR	WP	AR	WP	AR	WP	AR	WP
Environmental disclosure	0.000	0.000	0.909	0.818	0.184	0.163	0.000	0.000	0.264	0.243	1.272	1.286	0.351	0.327
Human resources disclosure	0.000	0.000	0.889	0.667	0.322	0.116	0.200	0.111	0.246	0.150	0.473	1.553	-0.510	2.703
Products and consumers disclosure	0.000	0.000	1.000	1.000	0.230	0.238	0.200	0.200	0.273	0.290	1.318	1.116	1.147	0.377
Community involvement disclosure	0.000	0.000	1.000	1.000	0.200	0.241	0.000	0.000	0.349	0.339	1.376	1.057	0.176	-0.362
Total SRD	0.000	0.000	0.833	0.739	0.239	0.175	0.116	0.100	0.228	0.192	0.993	1.031	-0.021	0.210

AR: Annual reports
WP: Web pages

Panel B: Continuous independent variables

Variable	Minimum	Maximum	Mean	Std. Deviation	Skewness	Kurtosis
Media exposure	0.00	31.00	2.71	6.87	3.07	9.19
Total assets	6,314.00	67,687,984.00	4,954,022.71	12,464,821.10	3.66	14.63
Leverage	0.20	1.53	0.75	0.23	0.34	2.69
Profitability	-0.38	0.21	-0.01	0.09	-2.35	8.57
International experience	0.00	0.91	0.24	0.27	1.33	0.88

Panel C: Categorical independent variables

Variable	Number	%
Environmental sensitivity	19.00	38.78
Consumer proximity	15.00	30.61

5.5.2 Statistical analysis

5.5.2.1 Bivariate analysis[1]

Relations between the dependent variables and the continuous independent variables

The correlations between SRD in annual reports and on the Internet and international experience (H_1), size (H_2) and media exposure (H_4) are analysed using Pearson correlation coefficients and Spearman's Rho. Table 5.8 reports the results of these tests.

The results pertaining to correlations between international experience and SRD in annual reports and on the Internet are relatively similar. For environmental disclosure, there is a positive and statistically significant relationship with international experience (H_1 is accepted only in this case).[2] Although not statistically significant, some degree of association seems to exist between international experience and community disclosure in annual reports. The same situation exists regarding human resources disclosure and total SRD on the Internet. In these two cases, only the Spearman's Rho allowed to conclude that a positive and statistically significant relationship exists (at the 0.05 level).

1 Given the distributional characteristics of the data, discussed below, non-parametric tests are also used to confirm the results.

2 A significant relationship was considered to exist when both parametric and non-parametric tests allowed such conclusion.

Table 5.8: Correlations between dependent variables and continuous independent variables (Pearson above, Spearman below)

Variables	Annual reports					Web pages				
	Environmental disclosure	Human resources disclosure	Products and consumers disclosure	Community involvement disclosure	Total SRD	Environment disclosure	Human resources disclosure	Products and consumers disclosure	Community involvement disclosure	Total SRD
Media exposure	0.542***	0.498***	0.480***	0.543***	0.627***	0.368***	0.344**	0.550***	0.574***	0.568***
	0.467***	0.342**	0.527***	0.557***	0.534***	0.339**	0.165	0.497***	0.539***	0.488***
Size	0.398***	0.258*	0.732***	0.650***	0.568***	0.179	0.259*	0.506***	0.663***	0.487***
	0.553***	0.491***	0.509***	0.622***	0.616***	0.419***	0.291**	0.467***	0.584***	0.574***
Leverage	-0.040	-0.066	0.032	0.119	0.006	-0.148	-0.044	0.061	0.108	-0.023
	-0.081	-0.089	0.043	0.200	-0.026	-0.266*	-0.095	0.084	0.149	-0.030
Profitability	0.209	0.144	0.258*	0.145	0.210	0.192	0.153	0.083	0.084	0.175
	0.299**	0.154	0.353**	0.088	0.205	0.301**	0.056	0.015	-0.060	0.115
International Experience	0.249*	0.085	0.000	0.209	0.179	0.342**	0.212	-0.050	0.105	0.229
	0.276*	0.154	0.143	0.305**	0.177	0.372***	0.304**	0.049	0.189	0.291**

*** Significant at the 0.01 level (2-tailed).
** Significant at the 0.05 level (2-tailed).
* Significant at the 0.10 level (2-tailed).

The results on relations between size and media exposure and SRD in annual reports and on the Internet are also relatively similar. Only in the cases of the association between media exposure and human resources disclosure on the Internet and the association between total assets and environmental disclosure on the Internet it is not possible to find a significant relationship. Hypotheses 2 (size) and 4 (media exposure) are thus accepted. This suggests that SRD is used as a distinguishing feature by companies with higher visibility.

Leverage and profitability do not seem to be important determinants of SRD except in the case of the disclosure of products and consumers information in annual reports, in which the relation with profitability seems to be significant. However, some degree of association is apparent between profitability and environmental disclosure (both in annual reports and on the Internet) and products and consumers disclosure in annual reports.

Relations between the dependent variables and the categorical independent variables

Both the *t*-test for equality of means and the Mann-Whitney U-test are used to identify whether having higher or lower consumer proximity (H_{3a}) and being more or less environmentally sensitive (H_{3b}) are factors which influence SRD. Table 5.9 reports the results of these tests (Panel A concerns environmental sensitivity whereas Panel B concerns consumer proximity).

Regarding consumer proximity, for a significance level of 0.05, hypothesis H_{3a} is rejected in the case of human resources disclosure both in annual reports and on the Internet, and in the case of environmental disclosure on the Internet.[3] Regarding the other categories of SRD, there is a significant difference between the disclosure of companies with higher consumer proximity and companies with lower consumer proximity. This is particularly significant in the case of community involvement information. H_{3a} is thus accepted. These results reinforce the suggestion that SRD is used as a distinguishing feature by companies with higher visibility.

Being more or less environmentally sensitive does not seem to be a factor explaining SRD. Even in the case of environmental disclosure there is no statistically significant evidence suggesting that more environmentally sensitive companies disclose

3 A significant relationship was considered to exist when both parametric and non-parametric tests allowed such conclusion.

more information, although the mean difference suggests that more environmentally sensitive companies disclose more information than their counterparts. Hypothesis H_{3b} is thus rejected.

Table 5.9: Tests for the relation between dependent variables and categorical independent variables

Panel A: Environmental sensitivity		*t*-test for Equality of Means			Mann-Whitney U test	
		t	Sig. [a]	Mean Difference	Mann-Whitney *U*	Asymp. Sig. [a]
Annual reports	Environmental disclosure	0.563	0.576	0.044	244.500	0.367
	Human resources disclosure	-0.534	0.596	-0.039	250.000	0.468
	Products and consumers disclosure	-1.970	0.055	-0.135	228.000	0.218
	Community involvement disclosure	0.166	0.869	0.017	273.000	0.757
	Total SRD	-0.300	0.766	-0.020	245.000	0.411
Web pages	Environmental disclosure	0.972	0.336	0.069	245.000	0.356
	Human resources disclosure	0.263	0.794	0.012	247.500	0.409
	Products and consumers disclosure	-0.728	0.470	-0.062	262.000	0.617
	Community involvement disclosure	-1.461	0.151	-0.135	231.500	0.217
	Total SRD	-0.098	0.923	-0.006	284.000	0.983
Panel B: Consumer proximity		*t*-test for Equality of Means			Mann-Whitney U test	
		t	Sig. [a]	Mean Difference	Mann-Whitney *U*	Asymp. Sig. [a]
Annual reports	Environmental disclosure	2.242	0.037	0.201	170.500	0.047
	Human resources disclosure	1.348	0.184	0.102	194.500	0.185
	Products and consumers disclosure	2.863	0.010	0.264	130.000	0.004
	Community involvement disclosure	2.854	0.011	0.346	150.500	0.004
	Total SRD	2.770	0.012	0.209	137.000	0.010
Web pages	Environmental disclosure	1.432	0.159	0.107	186.000	0.093
	Human resources disclosure	1.440	0.166	0.079	194.500	0.159
	Products and consumers disclosure	2.683	0.010	0.227	154.000	0.020
	Community involvement disclosure	4.901	0.000	0.479	79.500	0.000
	Total SRD	3.497	0.001	0.187	111.000	0.002

a: two-tailed

5.5.2.2 Multivariate analysis

Multiple regression models

An analysis of the statistics on skewness and kurtosis (Table 5.7), as well the Kolmogorov-Smirnov (K-S Lilliefors) and the Shapiro-Wilk normality test statistics (Table 5.10), suggests that dependent variables and continuous independent variables are not distributed normally. To bring the variables closer to normality for the purpose of the regression analysis, the dependent and independent continuous variables are transformed by computing normal scores using Van der Waerden's transformation

(Cooke, 1998; Haniffa and Cooke, 2005; Leventis and Weetman, 2004). The regression analysis is performed with the transformed variables.

Table 5.10: Normality tests

Panel A: Dependent variables									
		Untransformed data				Transformed data			
		Kolmogorov-Smirnov(a)		Shapiro-Wilk		Kolmogorov-Smirnov(a)		Shapiro-Wilk	
		Statistic	Sig.	Statistic	Sig.	Statistic	Sig.	Statistic	Sig.
Annual reports	Environmental disclosure	0.291	0.000	0.731	0.000	0.328	0.000	0.795	0.000
	Human resources disclosure	0.131	0.034	0.936	0.010	0.103	0.200*	0.950	0.038
	Products and consumers disclosure	0.258	0.000	0.797	0.000	0.253	0.000	0.849	0.000
	Community involvement disclosure	0.431	0.000	0.604	0.000	0.439	0.000	0.628	0.000
	Total SRD	0.168	0.001	0.873	0.000	0.075	0.200*	0.977	0.446
Web pages	Environment disclosure	0.341	0.000	0.712	0.000	0.365	0.000	0.750	0.000
	Human resources disclosure	0.269	0.000	0.770	0.000	0.304	0.000	0.811	0.000
	Products and consumers disclosure	0.264	0.000	0.803	0.000	0.290	0.000	0.828	0.000
	Community involvement disclosure	0.353	0.000	0.721	0.000	0.367	0.000	0.741	0.000
	Total SRD	0.223	0.000	0.844	0.000	0.133	0.029	0.941	0.017
Panel B: Continuous independent variables									
		Untransformed data				Transformed data			
		Kolmogorov-Smirnov(a)		Shapiro-Wilk		Kolmogorov-Smirnov(a)		Shapiro-Wilk	
		Statistic	Sig.	Statistic	Sig.	Statistic	Sig.	Statistic	Sig.
Media exposure		0.394	0.000	0.461	0.000	0.426	0.000	0.659	0.000
Size		0.376	0.000	0.448	0.000	0.018	0.200*	0.996	1.000
Leverage		0.139	0.018	0.936	0.010	0.018	0.200*	0.996	1.000
Profitability		0.263	0.000	0.701	0.000	0.029	0.200*	0.996	1.000
International experience		0.190	0.000	0.810	0.000	0.133	0.031	0.946	0.025

* This is a lower bound of the true significance.
a Lilliefors Significance Correction

Table 5.10 shows the Kolmogorov-Smirnov (K-S Lilliefors) and the Shapiro-Wilk normality tests statistics for the untransformed and the transformed data pertaining to the dependent variables (Panel A) and the continuous independent variables (Panel B). It is possible to conclude that the transformation of the dependent variables is not entirely successful. Only in the cases of human resources disclosure and total SRD in annual reports the transformation is successful. Regarding the independent variables, only in the case of media exposure the transformation is entirely unsuccessful.

Multiple regression is used to test the hypotheses developed above. However, before conducting the analysis several diagnostic tests, such as normality tests, autocorrelation tests, heteroscedasticity tests and multicollinearity tests, are performed to ensure valid conclusions are drawn based on the multiple regression results. If the tests are not satisfied then corrective procedures are performed.

The Jarque-Bera normality test is performed on the residuals of all the models. A probability below a five percent level indicates rejection of the null hypothesis (that is, the series is normally distributed).

The possible existence of multicollinearity is tested based on the correlation matrix incorporating all the independent variables (transformed data) (see Table 5.11) as well as computing the variance inflation factor (VIF) (see Table 5.12). Results on Table 5.10 indicate that multicollinearity is unlikely to be a problem.[4] In addition, results reported in Table 5.12 suggest that in none of the regressions the highest VIF is above 3 confirming that there is no need to be concerned about the correlation between the independent variables.[5]

Table 5.11: Correlation matrix for the continuous independent variables (Pearson above diagonal, Spearman below)

	Media Exposure	Total Assets	Leverage	Profitability	International Experience
Media exposure	1.000	0.499**	0.014	0.113	0.047
Size	0.717**	1.000	0.226	0.070	0.027
Leverage	0.211	0.295*	1.000	-0.602**	-0.150
Profitability	0.180	0.257	-0.435**	1.000	0.188
International experience	0.168	0.247	-0.035	0.230	1.000

** Significant at the 0.01 level (2-tailed).
* Significant at the 0.05 level (2-tailed).

Table 5.12: Collinearity Statistics

Variable	Tolerance	VIF
Media exposure	0.457	2.188
Size	0.364	2.748
Leverage	0.562	1.780
Profitability	0.564	1.772
International experience	0.734	1.362
Environmental sensitivity	0.586	1.706
Consumer proximity	0.441	2.267

Additionally, to test the assumption of independent errors (autocorrelation), the

4 As a rule-of-thumb, multicollinearity in regression analysis is considered harmful only when it exceeds 0.8 (Gujarati, 1995).
5 The rule of thumb is that there is evidence of collinearity problems if the variance inflation factor (VIF) exceeds 10 (Gujarati, 1995).

Durbin-Watson statistic was used. For a level of significance of 0.05, the Durbin-Watson *d* value lead in all cases either to inconclusive results (no decision) or to the non rejection of the hypothesis of no autocorrelation (cf. Gujarati, 1995). On the other hand, this is a problem pertaining mainly to time series data, which is not the case of this essay. Hence, there is no need to be concerned about autocorrelation.

To test for unequal variances, White's general heteroscedasticity test is performed on each set of results.[6] All chi-squared test statistics are not significant at a five percent level. Thus, the tests suggest that a widespread heteroscedasticity problem does not exist in the data and no corrective procedure is undertaken to combat its presence in the data.

Multiple regression analysis is used for multivariate testing of the hypotheses. Each of the dependent variables, SRD in annual reports and on the Internet, is regressed against the transformed independent variables. The categorical variables are also included. The results of these regressions are reported in Tables 5.13 and 5.14. Table 5.13 presents the results of the regression models pertaining to total SRD and Table 5.14 presents the results of the regression models for each category of SRD (Panel A refers to disclosure in annual reports and Panel B to disclosure on the Internet).

Table 5.13 Results of the regression models for total SRD

Independent variables	Disclosure media: Annual reports	Disclosure media: Internet
	Coefficient estimate	Coefficient estimate
(Constant)	0.109	-0.201
International experience	0.027	0.146
Leverage	-0.256	-0.332**
Profitability	-0.091	-0.227
Size	0.490**	0.404**
Media exposure	0.376*	0.224
Environmental sensitivity	-0.210	0.181
Consumer proximity	-0.151	0.435
	R^2 = 0.432; Adj. R^2 = 0.335; Durbin-Watson = 1.762	R^2 = 0.465; Adj. R^2 = 0.374; Durbin-Watson = 1.937
	F = 4.460; p = 0.001	F = 5.100; p = 0.000
	White heterosced. test: Obs*R^2 = 36.933; p = 0.292	White heterosced. test: Obs*R^2 = 28.025; p = 0.713
	Jarque-Bera test: JB = 2.631; p = 0.268	Jarque-Bera test: JB = 0.601; p = 0.740

*** Significant at the 0.01 level (2-tailed).
** Significant at the 0.05 level (2-tailed).
* Significant at the 0.10 level (2-tailed).

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6 Only the results of the White heteroscedasticity test using cross terms are reported.

Table 5.14: Results of the regression models for each category of SRD

Panel A: In annual reports		
Independent variables	Dependent variable: Environmental disclosure index Coefficient estimate	Dependent variable: Human resources disclosure index Coefficient estimate
(Constant)	-0.057	0.284
International experience	0.049	0.054
Leverage	-0.172	-0.305*
Profitability	-0.008	-0.142
Size	0.391**	0.551***
Media exposure	0.282	0.231
Environmental sensitivity	0.244	-0.353
Consumer proximity	-0.014	-0.499
	R^2 = 0.439; Adj. R^2 = 0.343; Durbin-Watson = 1.983 F = 4.584; p = 0.001 White heterosced. test: Obs*R^2 = 37.517; p = 0.270 Jarque-Bera test: JB = 0.826;p = 0.662	R^2 = 0.317; Adj. R^2 = 0.201; Durbin-Watson = 1.760 F = 2.723; p = 0.020 White heterosced. test: Obs*R^2 = 36.577; p = 0.306 Jarque-Bera test: JB = 0.435;p = 0.805
Panel B: On the Internet		
Independent variables	Dependent variable: Environmental disclosure index Coefficient estimate	Dependent variable: Human resources disclosure index Coefficient estimate
(Constant)	-0.051	-0.095
International experience	0.166	0.193
Leverage	-0.336**	-0.244
Profitability	-0.089	-0.196
Size	0.333*	0.269
Media exposure	0.079	-0.007
Environmental sensitivity	0.130	0.152
Consumer proximity	0.165	0.257
	R^2 = 0.354; Adj. R^2 = 0.243; Durbin-Watson = 1.791 F = 3.206; p = 0.008 White heterosced. test: Obs*R^2 = 42.141; p = 0.132 Jarque-Bera test: JB = 5.589; p = 0.061	R^2 = 0.210; Adj. R^2 =0.075; Durbin-Watson = 1.947 F = 1.553; p = 0.177 White heterosced. test: Obs*R^2 = 36.986; p = 0.290 Jarque-Bera test: JB = 2.959; p = 0.228

*** Significant at the 0.01 level (2-tailed).

** Significant at the 0.05 level (2-tailed).

* Significant at the 0.10 level (2-tailed).

Table 5.14 (continued): Results of the regression models for each category of SRD

Panel A: In annual reports		
Independent variables	Dependent variable: Products and consumers disclosure index Coefficient estimate	Dependent variable: Community involvement disclosure index Coefficient estimate
(Constant)	0.161	-0.062
International experience	0.051	0.0996
Leverage	0.036	-0.008
Profitability	0.251*	-0.076
Size	0.189	0.301**
Media exposure	0.358*	0.251
Environmental sensitivity	-0.384	0.1698
Consumer proximity	0.002	0.128
	R^2 = 0.434; Adj. R^2 = 0.338; Durbin-Watson = 1.678 F = 4.495; p = 0.001 White heterosced. test: Obs*R2 = 27.053; p = 0.757 Jarque-Bera test: JB = 0.566;p = 0.754	R^2 = 0.474. Adj. R^2 = 0.384. Durbin-Watson = 1.976 F = 5.282; p = 0.000 White heterosced. test: Obs*R2 = 38.138; p = 0.247 Jarque-Bera test: JB = 3.945; p = 0.139
Panel B: On the Internet		
Independent variables	Dependent variable: Products and consumers disclosure index Coefficient estimate	Dependent variable: Community involvement disclosure index Coefficient estimate
(Constant)	-0.005	-0.149
International experience	-0.085	0.084
Leverage	-0.144	-0.176
Profitability	-0.169	-0.238**
Size	0.312*	0.275*
Media exposure	0.428	0.256
Environmental sensitivity	0.074**	0.027
Consumer proximity	-0.016	0.571**
	R^2 = 0.356; Adj. R^2 = 0.246; Durbin-Watson = 1.807 F = 3.239; p = 0.008 White heterosced. test: Obs*R^2 = 28.232;p = 0.704 Jarque-Bera test: JB = 1.186; p = 0.553	R^2 = 0.568; Adj. R^2 = 0.495; Durbin-Watson = 1.847 F = 7.715; p = 0.000 White heterosced. test: Obs*R^2 = 34.812; p = 0.382 Jarque-Bera test: JB = 0.390; p = 0.823
*** Significant at the 0.01 level (2-tailed). ** Significant at the 0.05 level (2-tailed). * Significant at the 0.10 level (2-tailed).		

Table 5.13 reports the results of regressing the independent variables on the dependent variable total SRD. The F values for the two models are significant at 0,01

level. This suggests that the independent variables considered, when taken together, explain total SRD and its categories taken individually. However, this does not mean that each of the independent variables contributes to the explanation of the dependent variables.

The adjusted R^2's suggest that approximately 34% (in the case of annual reports) and 37% (in the case of the Internet) of the variation in the SRD scores between the companies can be explained by the independent variables included in the regression models. Only two of the independent variables are significant in each model: size in both, media exposure in the case of annual reports and leverage in the case of the Internet. The coefficients of total assets and media exposure are positive. This indicates, as hypothesised, that as the value of these variables increase so does a company's SRD score. Leverage is significant in the case of total SRD on the Internet, presenting a negative coefficient which suggests that the higher the leverage in a company, the lower its SRD.

Thus, at an aggregated level, the supported research hypotheses in the case of SRD in annual reports are those related to size (H_2) and media exposure (H_4), whereas in the case of SRD on the Internet the supported hypothesis is the one related to and size (H_2).

Table 5.14 shows the results of regressing the independent variables on each category of SRD. From the eight regression models only those which have human resources disclosure as a dependent variable are non-significant at the 1% level. In the case of human resources disclosure in annual reports the regression is significant at the 2% level, whereas in the case of similar disclosure on the Internet the regression is non-significant.

The explanatory power of the regression ranges from 7,5% for the human resources disclosure on the Internet to 49,5% for community involvement disclosure on the Internet. As for the importance of the independent variables in explaining variation between companies' disclosure, the size variable is significant with positive coefficients in almost all the regression models. The exceptions are the models which have as dependent variables products and consumers disclosure in annual reports and human resources disclosure on the Internet. The media exposure variable is significant with positive coefficients only when products and consumers disclosure is the independent variable (both in annual reports and on the Internet). Consumer proximity is significant with a positive coefficient in the case of community involvement disclosure on the

Internet, which leads to a conclusion that H_{3a} is accepted in the case of disclosure on the Internet. In addition, leverage is significant with a negative coefficient in the case of human resources disclosure on the Internet, and profitability is significant with a positive coefficient in the case of products and consumers disclosure in annual reports.

Table 5.15 summarises the results on hypothesis testing.

Table 5.15: Summary of the results from the hypotheses testing

Variables	Hypotheses	Annual reports	Web pages
International experience	Positive relation	- Non significant	- Non significant
Company size	Positive relation	- Positive relation - Non significant: products and consumers	- Positive relation - Non significant: human resources
Media exposure	Positive relation	- Non significant - Positive relation: products and consumers and total SRD	- Non significant - Positive relation: products and consumers
Environmental visibility	Positive relation	- Non significant	- Non significant
Consumer proximity	Positive relation	- Non significant	- Non significant - Positive relation: community involvement

Consistent with previous studies size and media exposure, which may be considered as proxies for social visibility, have in general a positive relationship with total SRD. These results are consistent with the expectations resulting from the theoretical framework proposed and with previous SRD studies.

The non-significant relation between SRD and international experience in both media of disclosure considered is an unexpected result. Given the degree of association reported in the bivariate analysis section, it is likely that the use of a more refined content analysis method would allow reaching significant relations. This is a possible avenue for further research.

Regarding consumer proximity, a significant positive relation is only discernible in the case of Internet community involvement disclosure. Although a positive relation in the case of annual reports community involvement disclosure is also hypothesized, these results are considered to be consistent with the theoretical framework proposed. Because company web pages are aimed at a broader public than annual reports, it is natural for companies to give prominence to the Internet as a media of disclosing their community involvement activities.

Environmental visibility is not a factor which explains the differences in environmental disclosure among companies. This is an unexpected finding. The theoretical framework proposed leads to the expectation that higher environmental visibility is associated to higher levels of disclosure and the findings of previous SRD studies are consistent with such expectation. These findings are a sign that companies with a more limited environmental impact are also disclosing environmental information. For example, banks are increasingly disclosing this kind of information (Branco and Rodrigues, 2006a). This is probably explained by the fact that in the last two decades the focus has been on environmental responsibility and disclosure.

5.5.2.3 The effects of outliers

The effect of outlying observations on the results is tested using Cook's distance procedure. The outlying observations are eliminated and the models re-estimated. Although not reported in detail here, in general both the explanatory power of the regression models and the importance of the independent variables in explaining variation between companies' disclosure have increased by excluding outlying observations. These results allow the conclusion that the explanatory power of the models and the independent variables proposed before are not related to the outlying observations.

5.6 Concluding remarks

This essay analyses some factors which influence SRD by a sample of companies listed on the Portuguese Stock Exchange (*Euronext – Lisbon*), using a theoretical framework which combines legitimacy theory and a resource-based perspective. According to this framework, managers increasingly need to consider SRD as a signal of improved social and environmental conduct in those fields because disclosure influences the external perception of reputation. By demonstrating that they operate in accordance with social and ethical criteria, companies can build reputation, whereas failing to do so can be a source of reputational risk.

Portuguese companies attribute greater importance to annual reports as disclosure media than to the Internet. Noticeable differences are related to the much higher presence of human resources information in annual reports than on the Internet and the higher presence of community involvement information on the Internet than in annual reports. These results are probably related to the fact that annual reports are directed at investors and it is natural for investors to be interested in human resources. On the other hand, because company web pages are aimed at a broader public, it is natural for companies to give prominence to community involvement information.

Evidence seems to suggest that companies with higher visibility exhibit greater concern to improve corporate image through SRD both on the Internet and in annual reports. In addition, in sectors with a high visibility among consumers there is greater concern for community involvement activities and disclosure. There is thus some support for the use of a combination of legitimacy theory with resource-based perspectives to explain SRD by Portuguese listed companies.

This essay contributes to research at least in two ways: first, it adds to the scarce research on SRD by Portuguese companies by providing new empirical data; second, it extends prior research using a combination of institutional and resource-based perspectives. However, this essay also is subject to several limitations: first, although it is constituted by all the relevant Portuguese listed companies, the sample may be considered small and this may have encumbered the research; second, there might be content analysis issues associated with the level of subjectivity involved in the coding process.

Several possible extensions of this essay, which are not mutually exclusive, may be envisaged in order to add new insights to the analysis of SRD by companies. One such possible extension is related to the use of more refined content analysis procedures. Another possible extension is an in-depth analysis of categories of SRD, which very likely would involve variations to the theoretical framework proposed. Finally, the use of a larger sample would be an important way of adding new insights to the analysis of SRD by Portuguese companies.

Appendix 5.1: Listed companies in the sample

Banco Totta & Açores, SA
Banif – SGPS, SA
Banco Comercial Português, SA
Banco Espírito Santo, SA
Banco BPI, SA
Brisa – Auto Estradas de Portugal, SA
Celulose do Caima, SGPS, SA
Cimpor – Cimentos de Portugal, SGPS, SA
CIN – Corporação Industrial do Norte, SA
Cofaco – Comercial e Fabril de Conservas, SA
Cofina – SGPS, SA
Comp. Industrial Resinas Sintéticas – Cires, SA
Compta – Equipamentos e Serviços de Informática, SA
Conduril – Construtora Duriense, SA
Copam – Companhia Portuguesa de Amidos, SA
Corticeira Amorim – SGPS, SA
EDP – Electricidade de Portugal, SA
Futebol Clube do Porto, Futebol, SAD
Finibanco – Holding SGPS, SA
Efacec Capital, SGPS, SA
Gescartão, SGPS, SA
Ibersol – SGPS, SA
Imobiliária Construtora Grão Pará, SA
Impresa, SGPS, SA
INAPA – Investimentos, Participações e Gestão, SA
Jerónimo Martins – SGPS, SA
Litho Formas Portuguesa – Impre. Cont. e Mult., SA
Modelo Continente, SGPS, SA
Mota – Engil, SGPS, SA
Novabase, SGPS, SA
Papelaria Fernandes – Industria e Comércio, SA
Pararede – SGPS, SA

Portucel – Empresa Produtora de Pasta de papel, SA

Portugal Telecom, SGPS, SA

PT Multimédia – Serv. Tel. Multimédia, SGPS, SA

Reditus, SGPS, SA

Sag Gest – Soluções Automóveis Globais,SGPS, SA

Salvador Caetano – Indust. Metal. Veículos Transp, SA

Semapa – Sociedade Investimentos e Gestão, SGPS, SA

Sociedade Comercial Orey Antunes, SA

Somague, SGPS, SA

Sonae – SGPS, SA

Sonae Industria – SGPS, SA

Sonaecom – SGPS, SA

Sporting – Sociedade Desportiva de Futebol, SAD

Sumolis – Comp. Industrial de Frutas e Bebidas, SA

Teixeira Duarte – Engenharia e Construções, SA

Tertir – Terminais de Portugal, SA

VAA – Vista Alegre Atlantis – SGPS, SA

Chapter 6

Size-related measures as proxies for Portuguese banks' public visibility: a research note

6.1 Introduction

The focus on environmental information in empirical studies analysing social responsibility disclosure (SRD) has entailed little study of disclosure practices by companies belonging to sectors with little environmental impact, such as banking and finance. Companies in these sectors disclose relatively little environmental information unlike other aspects of social responsibility.

On the other hand, until recently empirical research on SRD has focused almost exclusively on the annual report. However, some authors point out that their research can be criticised for ignoring other forms of communication (see, for example, Roberts, 1991). Annual reports are just one source of information. Some studies try to overcome this limitation by considering other disclosure media in addition to the annual report.

Particularly over the last decade companies have begun to use other discrete disclosure media (environmental reports, social responsibility reports, sustainability reports, etc.) and the Internet (Frost *et al.*, 2005, p. 89). The development of the Internet has been considered recently to be "pertinent to further development of social accounting" (Epstein, 2004, p. 16) Thus, there have been several studies which analyse the Internet as a SRD medium (see, for example, Esrock and Leichty, 1998, 2000; Maignan and Ralston, 2002; Patten, 2002; Cooper, 2003; Snider *et al*,. 2003; Campbell and Beck, 2004) and compare it with annual reports as disclosure media (see, for example, Williams and Pei, 1999; Patten and Crampton, 2004; Douglas *et al.*, 2004). More recently, some authors have begun to analyse SRD through three disclosure media (annual reports, discrete reports and web sites) (see, for example, Frost *et al.*, 2005).

This essay seeks to overcome the limitation of ignoring possible forms of communication other than the annual report by examining SRD on corporate web sites and in social responsibility reports. One of the purposes of this essay is to identify how banks disclose social responsibility information on the Internet comparing with the disclosure in annual reports and discrete reports. It aims to understand whether the Internet is in fact being used to develop social responsibility communication with stakeholders. It examines SRD on the Internet by Portuguese banks in 2004 and 2005. It compares the Internet with 2003 and 2004 annual reports and with social responsibility reports as disclosure media. Using content analysis, corporate SRD was classified in terms of theme (environment, human resources, products and customers and community involvement).

This essay adds to the literature on SRD by financial institutions. By using the banking industry, it is possible to obtain a homogeneous set of contextual circumstances such as limited direct pollution of the environment, a relatively homogeneous production process where product safety and employee safety are minimal concerns, similar stakeholder configurations, similar expenditures on R&D, and a constant regulatory framework (Simpson and Kohers, 2002, p. 101). It also allows focusing on company size as a proxy for public visibility.

Size is used commonly as a proxy for public visibility, since the activities of larger companies are more visible. Larger companies are subject to greater public and regulatory scrutiny than smaller companies, and are more likely to disclose social responsibility information. Two aspects are noteworthy (Brammer and Pavelin, 2004a, p. 704):

- larger companies are more susceptible to scrutiny from stakeholder groups since they are highly visible to external groups and more vulnerable to adverse reactions among them;
- larger companies, on average, are more diversified across geographical and product markets, thus having larger and more diverse stakeholder groups.

SRD is related to corporate size, with larger companies disclosing more than smaller ones (see, for example, Adams *et al.*, 1998; Archel, 2003; Neu *et al.*, 1998; Patten, 1991; Purushothaman *et al.*, 2000). Size is a factor in legitimacy theory (LT) (see, for example, Patten, 1991) and in positive accounting theory (PAT) (see, for example, Belkaoui and Karpik, 1989) to test hypotheses related to public visibility. Thus, findings about the relations between size and the level of SRD probably are not "an adequate basis on which to distinguish between the two positions." (Milne, 2002, p. 383) Hence, such endeavour will not be attempted in this essay but LT will be adopted as a theoretical underpinning combined with a resource-based perspective (RBP).

Several surrogates for size have been used in empirical studies on SRD. These include total assets and number of employees. In addition to these two size measures for public visibility, this essay proposes number of branches, a spatial competition index based on the number of branches and profits as proxies for public visibility. This is the main contribution of this essay to the literature: the discussion of several proxies for public visibility related to size. Some of these measures have never been discussed in SRD studies. This essay presents a discussion of some size-related measures which may be used as proxies for public visibility in some industries and/or some contexts which is illustrated with an analysis of the Portuguese banking industry case. This essay presents a limitation which is related to the size of the sample. In effect, the sample used is very small, although it is constituted by all the relevant Portuguese banks, and this fact entails a very rudimentary use of statistical methods.

The concept of visibility captures more than simply the size of a company. Bowen (2000, p. 96) argues that using size as a proxy for social visibility is inappropriate since larger companies are more visible, and have more resources to devote to social responsibility issues, or simply are involved in a wider range of managerial activity. On the other hand, factors such as media exposure (Brown and Deegan, 1998) and association with recent high profile social/environmental incidents (Deegan *et al.*, 2000) all give public visibility to companies independently of their size. However, it is a much used proxy for public visibility. Accordingly, one of the purposes of this essay is to discuss how size-related measures can be used as proxies for public visibility in the case of high street presence industries such as the banking sector.

This essay details the results of a previous study that built on earlier SRD research work. Branco and Rodrigues (2006a) examined SRD on the Internet by Portuguese banks in 2004. They compared the Internet and 2003 annual reports as disclosure media using a LT perspective. The current study completes the previous one by extending the theoretical framework by combining LT with a RBP. It also includes a follow-up analysis of a first data set both of web pages and annual reports by revisiting the same web pages in 2005 and analysing 2004 annual reports.

In the following section, the context of the Portuguese banking sector is presented. In the third section, the question of SRD by financial institutions is explored. Thereafter follow sections on hypotheses development, methodology, results and a discussion. Finally, some conclusions are drawn.

6.2 Banking in Portugal

Following the Portuguese revolution of 1974, all Portuguese banks were nationalized in 1975. The 1976 Constitution of the Portuguese Republic established the irreversibility of nationalization and barred new entries into banking. The banking system was heavily regulated in terms of entry, opening of branches, regulation of interest rates, credit ceilings, and reserve requirements. This situation lasted until the mid-1980's when a reform of privatization and deregulation of financial markets was undertaken to prepare the country for entry into the European Community in 1986. Private entry into banking was allowed in 1984, while the irreversibility of nationalisation was abolished in 1989 (Canhoto and Dermine, 2003; Canhoto, 2004; Mendes and Rebelo, 2003)

In 1984, the banking sector consisted of twelve state owned institutions and four banks (one *savings* bank and three foreign banks) that had not been nationalised in 1975. New banks created after 1984 began competing with existing nationalized banks. In 1989, a privatization programme covering all sectors of the economy was initiated. Gradually state-owned banks were privatized over the period 1989-1996. Only the financial group headed by the large bank Caixa Geral de Depósitos (CGD) remained in the public sector. By 1995, the picture had changed remarkably. Of 45 banks, 15 were foreign. During the 1990-1995 period, the number of bank branches increased from 2,082 to 3,876 (86 % growth) (Canhoto and Dermine, 2003; Canhoto, 2004). The increase in the number of branches was observed at a time when other European countries were sharply reducing their branch network, but can be explained by the deregulation of branch opening.

Between 1995 and 2003, several mergers and acquisitions occurred which changed the Portuguese banking industry. Despite difficult economic conditions in Portugal, most retail banks managed to outperform their European counterparts in 2003. At the end of 2003 there were 62 banks operating in Portugal, 30 foreign-owned. There were also 126 mutual agricultural credit banks and four savings banks. Five major domestic banking groups accounted for 78.1% of market share in terms of credit granted to customers, 79.2% of total assets and 65.6% of branches (cf. Banco de Portugal, 2004).

Portugal has no large banks by European standards. However, the number of branches of credit institutions (CI) per 100,000 inhabitants is among the highest in Europe. For example, at end of 2003 the number of branches per 100,000 inhabitants was of 52 in Portugal, whereas in the UK it was 24. However, the number of branches has been reduced slightly: at end of 2003 Portugal had 5,440 CI branches, down from 5,662 branches in 2000, but up from 4,746 in 1997 (cf. European Central Bank, 2004).

Following the progressive privatisation of state assets since the late 1980's, the state-owned savings bank, CGD, remains the only state-controlled financial services company. It is still the largest financial group and has, on several occasions, served as an instrument of government intervention in the economy. Usually this has occurred in defence against unwanted takeover bids from foreign investors. It retains this status, in part, by processing the salaries of the civil servants, and because of the privileged relationship it enjoys with the state. There are no immediate plans to privatise the CGD.

6.3 Social responsibility disclosure by financial institutions

SRD has been defined broadly as the "process of communicating the social and environmental effects of organisations' economic actions to particular interest groups within society and to society at large." (Gray *et al*., 1996, p. 3) Thus, it seeks to reflect several social and environmental aspects upon which companies' activities may have an impact: employee-related issues, community involvement, environmental concerns, other ethical issues, etc. SRD refers to the disclosure of information about companies' interactions with society.

Different sectors have different social responsibility priorities because processes and products are different. Although the banking industry has a different set of contextual circumstances than other industries, some social responsibility activities are not expected to differ greatly. The same can not be said about other activities, such as those related to environmental impact.

By comparison with other sectors (such as chemicals, paper and pulp, etc.) the financial services sector has significantly lower direct environmental impact. Jeucken and Bouma (1999, pp. 26-28) distinguish internal and external issues in the analysis of the environmental impacts of banks: internal issues are related to the business processes within banks whereas external issues are connected to its products.

In terms of internal issues, the banking sector is large enough to have a significant environmental impact. It consumes vast amounts of resources, such as paper and energy, and creates wastes. Coulson and Monks (1999, p. 2) argue that "substantial financial and environmental gains can be made by banks managing demand for, use and reuse of resources and waste disposal." Therefore, banks' policies regarding conservation of energy and natural resources and recycling activities are important aspects of their social responsibility activities.

On the other hand the indirect environmental impact of banks can also be significant due to their lending and investment policies. Although banks do not face the same environmental responsibility challenges of pollution, product safety, and employee safety as companies from other sectors, they "have a social and legal responsibility because they lend to firms that pollute, produce unsafe products, etc." (Simpson and Kohers, 2002, p. 108).

Thus, in addition to disclosing information regarding community involvement, human resources and relations with consumers, banks can report on what they are doing in terms of energy, water and paper use, and to ensure that their lending and investment policies do not facilitate industrial activities which are harmful to the environment.

A global picture of corporate SRD trends over the last ten years is provided by the series of KPMG surveys initiated in 1993 and published every three years since then. The last of these surveys, the "KPMG International Survey of Corporate Responsibility Reporting 2005" (KPMG, 2005) analyzes more than 1,600 of the world's largest companies, by selecting the top 250 from the Global Fortune 500 (G250) and the top 100 companies in 16 industrialized nations (N100). According to this last survey, the financial sector has made significant progress in corporate social responsibility (CSR) between 2002 and 2005. The increase in public interest about where money is invested and the growing evidence of long-term financial benefits of social and environmental consideration has led financial service providers to incorporate CSR in their core business. Almost 60 percent of the sector in G250, and more than 30 percent of the sector in N100, publishes a CSR report.

However, studies focusing on SRD practices by financial institutions are relatively scarce (see, for example, Hamid, 2004, Douglas *et al.*, 2004). Hamid (2004) studied SRD in annual reports by banks and finance companies in Malaysia. He found that product/service related disclosure seems to be more frequent than environmental and energy, human resources or community related disclosures. Findings also suggest that size, listing status and age of business are associated positively with SRD, whereas profitability is not. This suggests that LT may be an explanation of SRD by Malaysian banks and finance companies.

Douglas *et al.* (2004) analyse SRD in annual reports from 1998 to 2001 for six Irish banks and four international financial institutions; and on the web sites in 2002 of the six Irish banks. Their findings suggest that Irish financial institutions are well behind their international counterparts in terms of volume of SRD. The most reported issues in the annual reports of the Irish sample were corporate governance and human resources, while community involvement was the least reported. Concerning the international sample, the most reported issues in the annual reports were community involvement, corporate governance and human resources. None of the Irish banks made any environmental policy disclosure, which represented another important difference between the two samples. Their findings also suggest that Irish banks disclose more social responsibility information on their web sites than in their annual reports.

6.4 Hypotheses

Both PAT and LT, which are two consistently used theories in SRD research, posit a positive association between public visibility and SRD. Public visibility is associated usually with size, although other factors such as economic success and industry affiliation are also regarded as relevant. Size and industry affiliation have been the two widely used proxies for public visibility. Because only one industry is used in this essay, it is possible to analyse several size-related proxies for public visibility as being associated with SRD. RBP and LT will serve as theoretical background for the analysis that follows.

LT tries to explain companies' social responsibility activities and disclosure by reference to the values, norms, customs and attitudes of the wider society in which they operate (Hibbitt, 2004, p. 254). Companies are supposed to have activities which are congruent with social values and also to communicate that their activities are congruent with such values. These two dimensions in a company's efforts to gain, maintain or repair legitimacy are identified by Buhr (1998, p. 164): action, that is, congruence of the company's activities with social values; and presentation, that is, appearance of congruence with social values.

Legitimacy can be at risk even when a company's activities accord with society's expectations because the company has failed to communicate that its activities are congruent with social values. Some authors have suggested that changing activities without communicating such changes is insufficient (Deegan *et al.*, 2000, p. 105; Deegan, 2002, p. 296). Moreover, companies can attempt to "achieve legitimacy by appearing to do the 'right things' or not be involved in doing the 'wrong things' when this appearance may have little in common with a company's actual" performance (Buhr, 1998, p. 165).

From such a perspective, SRD is seen as one of the strategies used by companies to seek acceptance and approval of their activities from society. It is seen as an important tool in corporate legitimation strategies, as it may be used to establish or maintain the legitimacy of the company (that is, it may influence public opinion and public policy). LT suggests that SRD provides an important way of communicating with stakeholders, and convince them that the company is fulfilling their expectations (even when actual corporate behaviour remains at variance with some of these expectations).

Campbell *et al.* (2006, p. 100) argue that in the absence of a legitimacy-threatening event that might trigger specific legitimacy-restoring disclosures, specific categories of disclosure, such as community disclosure, can be expected to respond to the general vulnerability of a company or sector. Furthermore, these authors suggest that a key determinant of such vulnerability with regard to community disclosure is public profile. For these authors "whilst community disclosure may be an indicator of community activity (the more activity, the more to report on), it is also likely that disclosure would be driven by the felt-need to align to the expectations of stakeholders about whose concerns the company is most sensitive. In the case of companies with high community visibilities, these are likely to be end-user consumers and the 'general public'." (*op. cit.*, p. 99)

The approach taken in this essay results from combining LT with a RBP (see, for example, Bansal, 2005; Hart, 1995; Hillman and Keim, 2001; Russo and Fouts, 1997, Toms, 2001; Hasseldine *et al.*, 2005). According to the perspective embraced in this essay, SRD is understood as a strategy used by companies to defend their legitimacy when faced with a crisis, but also to increase reputation when that is not the case or to imitate other companies.

According to a RBP, the external benefits of CSR are related to its effect on corporate reputation (see, for example, Branco and Rodrigues, 2006b; Orlitzky *et al.*, 2003; Fombrun *et al.*, 2000; Fombrun and Shanley, 1990). Companies with good social responsibility reputation are able to improve relations with stakeholders such as customers, investors, bankers, suppliers and competitors. They also attract better employees or increase current employees' motivation and morale as well as their commitment and loyalty to the company, which in turn may improve financial outcomes.

SRD is particularly important in enhancing the effects of CSR in corporate reputation. Hooghiemstra (2000) argues that SRD is a communication instrument that companies use to create, protect or enhance their images or reputations. It can assist a company to create a competitive advantage because "creating a positive image may imply that people are to a great extent prepared to do business with the company and buy its products." (*op. cit.*, p. 64) It can be analysed as "a public relations vehicle", which is "aimed at influencing people's perceptions about the company" (*op. cit.*, p. 57).

The use of LT and RBP is useful as both of them can be conceived as using what Campbell *et al.* (2003, p. 559) call "the stakeholder metanarrative". Thus, these perspectives can be explored by using stakeholder theory insights. On the other hand, organisational legitimacy and organisational reputation have similar antecedents, social construction processes and consequences (Deephouse and Carter, 2005). This essay refers to these two interrelated concepts: that of legitimacy, which may be explored from a LT perspective; and that of reputation, which may be explored from a RBP. Whereas the LT perspective emphasises similarity, the RBP stresses uniqueness (Whetten and Mackey, 2002).

There are few cases in which strategies of differentiation or conformity regarding corporate reputation can be distinguished easily as a motive for companies to engage in CSR and disclosure. They are related to companies' responses to issues such as industrial conflict, social and environmental incidents, fraudulent or unethical management behaviour which may threaten corporate legitimacy. This occurs because if a company is perceived by stakeholders as not complying with their expectations, those stakeholders may withdraw the support needed to ensure its continued existence. For example, consumers can reduce or eliminate the demand for its products, the supply of resources being used, such as financial capital and labour, can be limited, and legal restrictions on its operations may result (Deegan and Rankin, 1996, p. 54; Deegan, 2002, p. 293). In these situations the driving force behind engaging in social responsibility activities and disclosure is the maintenance or regaining of legitimacy.

For the purposes of this essay, the fundamental aspect is that legitimacy requires a reputation that must be retained. It requires a company to convince its relevant publics that its activities are congruent with their values. Thus, reputation and legitimacy are inextricably linked. In this essay the distinction between the two will not be explored further.

Presenting a positive social image with the general public is more likely to be important to companies with high public visibility. Because community involvement disclosure is concerned with how the company relates to society through its charitable donations, sponsorship of arts, sports and education, etc., it should be higher in companies that have greater incentive to be involved in such activities. Thus, one might consider that those companies with the highest public profile are more willing to present a positive social image through community involvement activities than those less well-known. They do this because such activities are deemed to attract consumers and also to justify their existence to society. Hence, companies whose names and/or activities are better known to the general public have more reason to use community involvement disclosure as part of their reputation management strategies when compared with less known companies. Banks are considered to attribute great importance to community involvement disclosure as part of their SRD practices.

Because there are no theoretical reasons which might clearly justify choosing a particular measure of size (Hackston and Milne, 1996, p. 87), the measures of size which have been used in previous studies (see, for example, Archel, 2003; Belkaoui and Karpik, 1989; Bewley and Li, 2000; García-Ayuso and Larrinaga, 2003; Gray *et al.*, 2001; Hackston and Milne, 1996; Hibbitt, 2004; Patten, 1991; Williams, 1999), and which are discussed in this essay, are total assets as reported on the balance sheet (which is probably the more traditional one), number of employees and total profits. One should note that, in itself, the number of employees might be considered as a potential proxy for public pressure, based on the notion that the greater the number of employees, the greater the entity's visibility to external parties, such as unions, the general public and members of government (Frost and Seamer, 2002, p. 110).

In addition to these measures of size, the number of branches scattered throughout the country is used as a proxy for the visibility among consumers. It is not a far-fetched hypothesis because the relative number of branches of banks in Portugal is among the highest in Europe. Thus, banks with a larger number of branches are considered to have higher visibility and are expected to disclose more social responsibility information.

However, an attempt to provide a more refined measure of public visibility related to the number of branches is made. Hence, an adapted annual index of spatial competition (SC) was used as a proxy for social visibility. The index used in this essay was adapted from the one used by Mendes and Rebelo (2003) for other purposes. Information collected from the *Boletim Informativo da Associação Portuguesa de Bancos* on the number of bank branches at the district ('*distrito*') level is used to compute an index of spatial competition. This index is defined as

$$SC_i = \sum_k \left(\frac{n_{ik}}{n_k} \times \frac{n_{ik}}{n_i} \right)$$

where n_i is the total number of branches of bank *i* in a given year, n_k is the number of bank branches in district *k* in a given year, and n_{ik} is the number of branches of bank *i* in district *k* in that year.

This index evaluates the relevance of each bank in each local market where it has branches. It measures the market share (in terms of number of branches) of bank *i* in district *k*, weighted by the relevance of that local market for the bank. A high value for the index means that bank *i* has strong market power in the local markets where the bank has set up branches. An important limitation of this index is that it assumes implicitly that all branches are equally important in terms of the type and volume of the bank's banking business.

This index may be a useful measure of public visibility because there are banks which concentrate their activities in certain areas of the country. This is an important aspect since companies which are, for example, major local employers are visible on a local level. In the Portuguese case some banks are particularly important in areas such as Madeira and/or Azores. In spite of having a limited number of branches scattered throughout the country these banks are extremely visible in those areas and if one were just to focus on the total number of branches one would lose sight of this local visibility. It is important to note that two of the banks which presented these characteristics were also listed in the Portuguese Stock Exchange in December 2003 and one of them maintained such status in December 2004. Being listed on the Stock Exchange may be an important determinant of social visibility and this fact may contribute to an increased disclosure on the part of these banks.

Patten (1991, p. 300) suggests that because social legitimacy is monitored through the public policy process and not in the marketplace as with economic legitimacy, SRD should be a function of social legitimation, rather than of economic legitimation. Therefore, analysis "should indicate that the extent of social disclosure is more closely related to public pressure variables than economic ones." (*ibid.*) Thus, one should not expect social disclosure to be closely related to profits.

However, Hibbitt (2004, p. 301n) questions the suggestion that profitability is solely a market variable on the grounds that companies which present abnormally high levels of profits are just as exposed to public pressures from relevant publics as those of abnormally large size or which operate in socially-sensitive industries. In addition, noting some confusion as to whether profit is a surrogate for size or part of a company's socio-political profile, this author (*op. cit*., p. 203n) argues that the absolute size of a company's profits influences its political visibility. Hence, he uses profits as a proxy for public visibility.

This is also an argument used from a PAT perspective. When defining political costs, Watts and Zimmerman (1978, p. 115) specifically referred to "social responsibility campaigns in the media" as one of the possible actions that companies take to avoid the adverse attention that high profits draw. These actions are done to reduce the likelihood of adverse political actions and expected costs, which include "the costs labour unions impose through increased demands generated by large reported profits." (*ibid.*) To prevent wealth transfers, large companies are more likely to use accounting choices that reduce reported profits or make other disclosures to reduce political costs. Thus, companies attempt to avoid potential pressure from government regulatory agencies which enforce CSR through SRD (see, for example, Belkaoui and Karpik, 1989).

Public visibility may be related to high profits with the more successful companies coming under more intense societal scrutiny, resulting in a greater desire to legitimise their activities. This aspect is of particular relevance in the case of Portuguese banks because despite the recessive juncture of the economy, the profitability of the Portuguese banking system improved significantly in 2003 compared with the previous year (Banco de Portugal, 2004, p. 198). In 2004 "profitability indicators stood at slightly lower levels than in the previous year, but clearly higher than in 2002." (Banco de Portugal, 2005, p. 114). More importantly, profits have grown in 2003 and 2004. This has led to the appearance in the Portuguese media of news stories emphasizing this growth (see, for example, Fernandes, 2004).

Peter Wise wrote two articles in *The Banker* related to the high profits of Portuguese banks which are relevant for the present article. In the first article, entitled "Results of resilience", Wise noted that in 2003 most of the Portuguese banks outshone analysts' forecasts by a wide margin and several recorded their best annual results ever (Wise, 2004). In the second article, entitled "Buoyancy in a weak economy", Wise noted that in 2004 Portuguese banks displayed "considerable resilience, with their profits growing, in an economy that is climbing out of recession." (Wise, 2005)

Regarding 2004 profits, another aspect which has contributed to the public visibility factor is associated with the fiscal benefits which banks are able to use in order to pay less taxes. Profits are higher but banks pay fewer taxes. Thus, for Portuguese banks, the absolute size of profits influences their public visibility.

The following hypotheses follow from the above:

H_1: Banks with larger total net assets disclose more social responsibility information.

H_2: Banks with a larger number of employees disclose more social responsibility information.

H_3: Banks with a greater number of branches disclose more social responsibility information than those with smaller number of branches.

H_4: Banks with a higher index of spatial competition disclose more social responsibility information.

H_5: Banks with higher profits disclose more social responsibility information.

The research will identify whether the independent variables related to the number of branches, total net assets, number of employees and total profits (net profit) which are used as proxies for public visibility, have a significant relationship to banks SRD, particularly community involvement disclosure.

6.5 Method

6.5.1 Sample selection

The sample is composed of 12 Portuguese banks (Appendix 6.1). Six were listed on the Portuguese Stock Exchange (*Euronext – Lisbon*) at 31 December, 2003 and 5 maintained such status at 31 December, 2004. Initially it was based on the 48 banks (including savings banks) which were registered with Bank of Portugal at 31 December 2003. Investment and specialized banks were excluded. Of the remaining banks, in order to be included in the sample for this essay, they had to:

- have an accessible web site on the Internet in August 2004 and August 2005, and
- have 2003 and 2004 annual reports for review.

Initially the sample was composed of 15 banks. No bank was excluded due to the unavailability of annual reports. The final sample includes all the banks with more than 20 branches. From these, three were excluded from the sample because they merged in 2004.

6.5.2 Data capture

To measure the level of social responsibility information disclosed by Portuguese banks, this essay uses what is commonly known as "content analysis". This technique consists of classifying the information disclosed into several categories of items which capture the aspects of social responsibility one wants to analyse.

The simplest form of content analysis consists of detecting the presence or absence of social responsibility information (see, for example, Archel, 2003; Frost *et al.*, 2005; Patten, 2002a; Purushothaman *et al.*, 2000). One of the main shortcomings of this form of content analysis is that it does not the measurement of the extent of information disclosure and, therefore, the coded data does not reflect the emphasis that companies attach to each information item (Zéghal and Ahmed, 1990, p. 42). However, the number of different topics discussed is considered as a reasonable measure of management's willingness to provide social responsibility information in general (Bewley and Li, 2000, p. 206). Thus, analysis of SRD in this essay used a scoring system which assigned a point for each corporate SRD theme pertaining to any of the categories considered.

To determine the nature and extent of SRD included on corporate web sites, each company web site was accessed during the months of August 2004 and 2005 and analysed for the provision of social responsibility information. The entire web sites were examined. All links were followed, but for the following exclusions:

- neither on-line copies of the annual report (Patten and Crampton, 2004) nor on-line copies of social and/or environmental reports, where available, were included in the web site analysis;
- links to external press release disclosures were also not followed (but press releases of the companies were examined for SRD) (Patten and Crampton, 2004);
- links to company publications such as newsletters or products catalogs were not followed.

It is useful to exclude annual reports and discrete reports which are provided on-line when analysing web sites because it enables the collection of segregated data on the three disclosure media (Frost *et al.*, 2005, p. 91).

Several empirical studies in the area were of great utility in developing the SRD index used in this essay (see, for example, Archel, 2003; Adams *et al.*, 1998; Deegan *et al.*, 2002; Gray *et al.*, 1995, Hackston and Milne, 1996; Patten, 1991, 2002a; Purushothaman *et al.*, 2000; Williams, 1999; Williams and Pei, 1999). SRD refers in this essay to disclosures in the following four categories:

- environmental;
- human resources;
- products and consumers; and
- community involvement.

In the case of banks, environmental disclosure comprises disclosures relating to environmental policies, environmental management system and environmental awards (including ISO 14001 and *Eco Management and Audit Scheme* – EMAS), lending and investment policies, conservation of natural resources and recycling activities, and disclosures concerning energy efficiency. Human resources disclosure is defined to include such issues as employee numbers and remuneration, employee share ownership, employee consultation, training and education, employment of minorities or women, and trade union information. Products and consumers disclosure encompasses disclosures related to product quality (for example, third party recognition for the quality of the company's products) and consumer relations (for example, customer complaints). Community involvement disclosure includes disclosures relating to sponsorship (e.g. of art exhibits), as well as charitable donations and activities.

The total maximum score was 23. The maximum score for each of the categories considered was 6 for environmental disclosure, 9 for human resources disclosure, 3 for products and consumers disclosure, and 5 for community involvement disclosure (Table 6.3).

6.6 Results and discussion

6.6.1 SRD in annual reports and on the Internet

Results in Table 6.1 show an evolution both in SRD practices on the Internet from 2004 to 2005 and in annual reports from 2003 to 2004. The number of banks presenting only one of the categories considered has diminished in both disclosure media. In the case of annual reports, there is a considerable increase in the number of banks presenting three of the categories considered. Portuguese banks seem to attribute greater importance to annual reports as disclosure media than to the Internet.

Table 6.1: Number of SRD categories disclosed

	On the Internet				In Annual Reports			
	2004		2005		2003		2004	
No. of categories disclosed	n	%	n	%	n	%	n	%
4	1	8	1	8	2	17	2	17
3	2	17	4	33	1	8	5	42
2	3	25	4	33	7	58	2	17
1	6	50	3	25	2	17	3	25
0	0	0	0	0	0	0	0	0
Total	12	100	12	100	12	100	12	100

The comparison of the information disclosed on the Internet with similar information disclosed in the annual reports in Tables 6.2 and 6.3 indicates that environmental and human resources information are more evident in annual reports than on the Internet, whereas the reverse succeeds with products and consumers and community involvement information. Human resources information is the kind of information whose disclosure on the Internet and in annual reports presents a more significant difference.

Table 6.2: Mean SRD scores

Average Disclosure	Internet		Annual Reports	
	2004	2005	2003	2004
Environmental disclosure	0.42	0.50	0.58	0.58
Human resources disclosure	0.83	0.83	3.08	4.92
Products and consumers disclosure	1.08	1.42	0.92	1.00
Cummunity involvement disclosure	2.25	2.67	1.50	2.00
Total	4.58	5.42	6.08	8.50

Table 6.3: SRD areas (categories in capital letter, items in small letter)

Categories and items of disclosure	On the Internet				In Annual Reports			
	2004		2005		2003		2004	
	n	%	n	%	n	%	n	%
ENVIRONMENTAL DISCLOSURE								
Environmental policies or company concern for the environment	1	8.33	1	8.33	2	16.67	2	16.67
Environmental management, systems and audit	0	0.00	0	0.00	0	0.00	0	0.00
Lending policies	0	0.00	1	8.33	1	8.33	1	8.33
Conservation of natural resources and recycling activities	1	8.33	1	8.33	1	8.33	2	16.67
Sustainability	2	16.67	2	16.67	2	16.67	1	8.33
Conservation of energy in the conduct of business operations	1	8.33	1	8.33	1	8.33	1	8.33
HUMAN RESOURCES DISCLOSURE								
Employee Health and Safety	1	8.33	1	8.33	0	0.00	3	25.00
Employment of minorities or women	0	0.00	1	8.33	4	33.33	4	33.33
Employee training	1	8.33	1	8.33	11	91.67	11	91.67
Employee assistance/benefits	1	8.33	1	8.33	1	8.33	1	8.33
Employee remuneration	1	8.33	1	8.33	8	66.67	11	91.67
Employee profiles	3	25.00	3	25.00	11	91.67	12	100.00
Employee share purchase schemes	2	16.67	1	8.33	3	25.00	4	33.33
Employee morale	1	8.33	1	8.33	1	8.33	5	41.67
Industrial relations	0	0.00	0	0.00	1	8.33	2	16.67
PRODUCTS AND CONSUMERS DISCLOSURE								
Product quality	6	50.00	5	41.67	5	41.67	3	25.00
Consumer complaints/satisfaction	5	41.67	8	66.67	6	50.00	9	75.00
Provision for disabled, aged, and difficult-to-reach consumers	2	16.67	4	33.33	1	8.33	1	8.33
COMMUNITY INVOLVEMENT DISCLOSURE								
Charitable donations and activities	6	50.00	7	58.33	4	33.33	4	33.33
Support for education	7	58.33	8	66.67	5	41.67	5	41.67
Support for the arts and culture	6	50.00	7	58.33	5	41.67	7	58.33
Support for public health	3	25.00	3	25.00	1	8.33	2	16.67
Sponsoring sporting or recreational projects	5	41.67	7	58.33	3	25.00	6	50.00

As Zéghal and Ahmed (1990) argue, the choice of a medium for information disclosure is dependent on the target public for whom the message is intended. Because annual reports are directed at investors, and human resources are an important resource, it is natural for investors to be interested in it. On the other hand, because company web sites are aimed at a broader public, including consumers, it is natural for companies to give prominence to community involvement and products/consumers information.

The two banks which disclose environmental information on the Internet both in 2003 and 2004 are among the three largest banks in terms of total assets, number of employees, number of branches and total profits. Furthermore, they are both listed banks. These two banks also disclose environmental information in annual reports. They are the two banks which disclose more information on the Internet in both years. They are also the only banks which published, for the first time in 2004, separate Social Responsibility Reports. One of these banks, which is the second in terms of total disclosure, joined the Global Reporting Initiative as an organisational stakeholder in September 2004. Hence, it is possible to suggest that environmental information disclosure is used as a distinguishing feature by banks with higher visibility.

An important aspect is that these two banks adopted opposing strategies regarding disclosure in annual reports after beginning to publish discrete reports. To date, one of the banks has published two discrete reports but has maintained the level of disclosure in the annual reports, whereas the other bank substantially diminished disclosure in the annual report subsequent to the publication of the discrete report. This latter bank was ranked second in terms of SRD in annual reports in 2003 and dropped to fourth place in 2004. However, a joint analysis of the web page, the annual report and the social responsibility report gives us a different picture, and this bank remains one of two banks with higher scores.

The only one of the largest banks which is in almost all considered aspects lagging behind the others in 2003/2004 was a public bank. In 2003/2004, it was lagging behind in terms of disclosure both in annual reports and on the Internet. In 2004, its disclosure on the annual report increased significantly and it became the bank which ranked highest on the annual report. It also increased its disclosures on the Internet but not nearly as much as in the annual report. This bank has disclosed for the first time in 2005 environmental information on the Internet. The explanation for these changes is related probably to the fact that in 2003 it was the bank with the highest profits. Thus, it has probably felt the need to increase the level of SRD to legitimize its activities.

Nonetheless, it is the only of the three largest banks that remains without a social responsibility report.

Although these changes in the public bank SRD practices are congruent with a LT perspective, it still lags behind the other largest banks. This seems to contradict LT. From a LT perspective, Cormier and Gordon (2001) argue that publicly owned companies depend more on social and political support than their privately owned counterparts, thus being expected to face greater pressures to disclose additional information due to reasons of visibility and accountability associated with the large number of stakeholders (*op. cit.*, p. 94). In their study of three Canadian electric companies, they found that the publicly owned companies disclosed more social responsibility information than the privately owned company.

In a similar perspective, Tsang (1998, p. 631) argues that a publicly owned bank is expected to disclose more social responsibility information than a privately owned one. However, Tsang found that the public bank which existed in the sample disclosed less social responsibility information than the privately owned ones, when compared to the latter's mean disclosures (*ibid.*). Tsang suggested as a "probable explanation" the inexistent need of that particular bank to "manipulate its social disclosure for the purpose of legitimization" due to being a well-known national bank (*ibid.*). The explanation suggested by Tsang seems to be a perfectly reasonable explanation for the findings of this essay, in view of the profile of the publicly owned bank. The privatization of the financial services sector in Portugal is relatively recent, and the publicly owned bank in the sample remains one of the largest banks in all aspects and continues to have an important part of its activities dependent of its public status.

6.6.2 Tests of hypotheses

To test the hypotheses, the score for annual reports and web sites in each year 2003/2004 and 2004/2005 (note that the annual reports are released in the year following the one to which they respect) is used. In addition, a global score which results from the sum of SRD in the three media considered (web page, annual report and discrete report) is also used. This decision is related to the above mentioned alteration in the SRD practices of one of the banks which released discrete reports. Given the very small sample used, the alteration in the disclosure practices in the annual report has implications which are important to the conclusions reached.

Another important aspect is that the variables total assets, number of employees, and number of branches are correlated strongly. However, there is no significant correlation between these variables and the index of spatial competition except in the case of the number of employees (see Table 6.4). Knowing this allows the interpretation of the results pertaining to the relation between the index and SRD in a different light.

Table 6.4: Correlation between the size related variables (Spearman's Rho)

	SC		Branches		Assets		Profits		Employees	
	2004	2005	2004	2005	2004	2005	2004	2005	2004	2005
Branches	0.490	0.469	1.000	1.000	0.937*	0.944*	0.867*	0.853*	0.965*	0.965*
Assets	0.399	0.392	0.937*	0.944*	1.000	1.000	0.916*	0.895*	0.888*	0.902*
Profits	0.343	0.462	0.867*	0.853*	0.916*	0.895*	1.000	1.000	0.790*	0.804*
Employees	0.517**	0.510**	0.965*	0.965*	0.888*	0.902*	0.790*	0.804*	1.000	1.000

* Significant at the 0.01 level (1-tailed)

** Significant at the 0.05 level (1-tailed)

Given its exploratory nature and the small sample, a non-parametric statistical method was used to test the relationships between the independent variables and SRD: the Spearman's Rho.

Results of Testing Hypothesis 1

Table 6.5 reports the results of the Spearman's Rho for the correlation between SRD on the Internet, in annual reports and on the three media and total assets.

For Total SRD, there was a positive and statistically significant relationship. Environmental and community involvement disclosures indicate a positive and statistically significant association, whereas human resources and products/consumers indicate positive but in the majority of the cases statistically not significant associations. Hypothesis 1 is accepted for total social responsibility, environmental and community involvement disclosures.

Table 6.5: Correlation between SRD and total assets

	On the Internet		In Annual Reports		Global	
	2004	2005	2003	2004	2003/04	2004/05
Total SRD	0.296	0.630**	0.649**	0.804*	0.604**	0.807*
Environmental disclosure	0.511**	0.732*	0.511**	0.521**	0.511**	0.734*
Human resources disclosure	0.104	0.181	0.481	0.585**	0.382	0.715*
Products/consumers disclosure	0.244	0.363	0.222	0.387	0.234	0.647**
Community involvement disclosure	0.358	0.530**	0.883*	0.649**	0.746*	0.723*

* Significant at the 0.01 level (1-tailed)

** Significant at the 0.05 level (1-tailed)

Results of Testing Hypothesis 2

Table 6.6 reports the results of the Spearman's Rho for the correlation between SRD on the Internet, in annual reports and on the three media and number of employees.

Table 6.6: Correlation between SRD and number of employees

	On the Internet		In Annual Reports		Global	
	2004	2005	2003	2004	2003/04	2004/05
Total SRD	0.385	0.680*	0.667*	0.804*	0.681*	0.793*
Environmental disclosure	0.441	0.667*	0.441	0.532**	0.441	0.661*
Human resources disclosure	0.179	0.173	0.535**	0.679*	0.473	0.779*
Products/consumers disclosure	0.156	0.389	0.156	0.168	0.130	0.503**
Community involvement disclosure	0.447	0.565**	0.871*	0.711*	0.814*	0.744*

* Significant at the 0.01 level (1-tailed)

** Significant at the 0.05 level (1-tailed)

For Total SRD, there was a positive and statistically significant relationship. Environmental and community involvement disclosures indicate a positive and statistically significant association, whereas human resources and products/consumers indicate positive but in the majority of the cases statistically not significant associations. Hypothesis 2 is accepted for total social responsibility, and community involvement disclosures.

Results of Testing Hypothesis 3

Table 6.7 reports the results of the Spearman's Rho for the correlation between SRD on the Internet, in annual reports and on the three media and number of branches.

Table 6.7: Correlation between SRD and number of branches

	On the Internet		In Annual Reports		Global	
	2004	2005	2003	2004	2003/04	2004/05
Total SRD	0.421	0.676*	0.674*	0.789*	0.681*	0.811*
Environmental disclosure	0.500**	0.667*	0.500**	0.462	0.500**	0.670*
Human resources disclosure	0.138	0.212	0.553**	0.647**	0.469	0.794*
Products/consumers disclosure	0.156	0.334	0.193	0.231	0.148	0.521**
Community involvement disclosure	0.497**	0.583**	0.883*	0.671*	0.817*	0.768*

* Significant at the 0,01 level (1-tailed)

** Significant at the 0,05 level (1-tailed)

For Total SRD, there was a positive and statistically significant relationship. Environmental and community involvement disclosures indicate a positive and statistically significant association, whereas human resources and products/consumers indicate positive but in the majority of the cases statistically not significant associations. The association with environmental information appears to be particularly significant. Hypothesis 3 is accepted for total social responsibility, environmental and community involvement disclosures.

Results of Testing Hypothesis 4

Table 6.8 reports the results of the Spearman's Rho for the correlation between SRD on the Internet, in annual reports and on the three media and the spatial competition index (SC).

Table 6.8: Correlation between SRD and SC

	Internet		Annual Reports		Global	
	2004	2005	2003	2004	2003/04	2004/05
Total SRD	0.610**	0.804*	0.781*	0.449	0.800*	0.730*
Environmental disclosure	0.371	0.502**	0.371	0.333	0.371	0.505**
Human resources disclosure	-0.063	-0.102	0.693*	0.467	0.568**	0.460
Products/consumers disclosure	0.333	0.675*	0.304	0.089	0.356	0.600**
Community involvement disclosure	0.623**	0.827*	0.617**	0.383	0.750*	0.723*

* Significant at the 0.01 level (1-tailed)

** Significant at the 0.05 level (1-tailed)

For Total SRD, there was a positive and statistically significant relationship. Community involvement disclosures indicate a positive and statistically significant association, whereas environmental, human resources and products/consumers indicate positive but in the majority of the cases statistically not significant associations. Hypothesis 4 is accepted for total social responsibility and community involvement disclosures.

Results of Testing Hypothesis 5

Table 6.9 reports the results of the Spearman's Rho for the correlation between SRD on the Internet, in annual reports and on the three media and profits.

Table 6.9: Correlation between SRD and profits

	Internet		Annual Reports		Global	
	2004	2005	2003	2004	2003/04	2004/05
Total SRD	0.310	0.673*	0.574**	0.607**	0.568**	0.740*
Environmental disclosure	0.511**	0.732*	0.511**	0.521**	0.511**	0.734*
Human resources disclosure	0.104	-0.016	0.528**	0.661*	0.426	0.657**
Products/consumers disclosure	0.344	0.576**	0.256	0.264	0.320	0.708*
Community involvement disclosure	0.347	0.587**	0.758*	0.350	0.640**	0.600**

* Significant at the 0,01 level (1-tailed)

** Significant at the 0,05 level (1-tailed)

For Total SRD, there was a positive and statistically significant relationship.

Environmental and community involvement disclosures indicate a positive and statistically significant association, whereas human resources and products/consumers indicate positive but in the majority of the cases statistically not significant associations. The association with community involvement information appears to be particularly significant. Hypothesis 5 is accepted for total social responsibility, environmental and community involvement disclosures.

The tests of the hypotheses that a combination of LT and RBP allowed to develop suggest that banks with higher visibility attribute greater importance to SRD as part of their reputation management strategies when compared with banks with lower visibility. Community involvement disclosure appears as a particularly significant category of disclosure in these strategies. On the other hand there is also some evidence that disclosing environmental information is used as a distinguishing feature by banks with higher visibility. These results suggest that the multi-theoretical framework adopted may provide an explanatory basis for SRD by Portuguese banks.

6.7 Conclusions

SRD refers to the disclosure of information about companies' interactions with society, and it is an important instrument in the dialog between business and society. In this essay, four categories of SRD are analysed, referring to employee related issues, environmental issues, products and consumers issues, and community involvement issues. A sample of banks was surveyed to establish whether they had a web page and if so whether social responsibility information was available. Two media of SRD are analysed: corporate web sites and annual reports. SRD on the Internet in August 2004 and August 2005 was compared to similar disclosure in 2003 and 2004 annual reports. The social responsibility reports which were published by two banks were also considered in the analysis.

This essay shows that Portuguese banks seem to attribute greater importance to annual reports as disclosure media than to the Internet. Community relations disclosure is an important part of the SRD made by banks. It was the only area of SRD which can be considered to be more or less equally important in annual reports and on the Internet.

Results suggest that the choice of a medium for information disclosure is dependent on the target public for whom the message is intended. Environmental and human resources information are more present in annual reports than on the Internet, whereas the reverse succeeds with products and consumers and community involvement information, although the difference is insignificant in the latter case. Because annual reports are directed at investors and human resources are an important resource, it is natural for investors to be interested in it. On the other hand, because company web sites are aimed at a broader public, including consumers, it is natural for companies to give prominence to community involvement and products/consumers information.

The relationship between public visibility and SRD was analysed in this essay using measures for such visibility which are clearly surrogates for size such as total assets, number of employees and number of branches. In addition to these measures a spatial competition index based on the number of branches was also used as proxy for public visibility in an attempt to contribute to SRD research. Profits were also discussed as a proxy for social visibility particularly appropriate in the Portuguese context. The contribution of this essay to the literature lies in the discussion of these proxies. However, the size of the sample used is a clear limitation which may hamper the interest of the conclusions reached.

The results presented above suggest that banks with higher visibility attribute greater importance to SRD as part of their reputation management strategies when compared with banks with lower visibility. These banks exhibit greater concern to improve the corporate image through SRD. Results suggest that a combination of LT with a RBP is an explanation of SRD by Portuguese banks.

Some of the results obtained have implications concerning directions for further research. In particular, the results obtained using the spatial competition index lead to conclude that this is a variable which has potential to be explored using larger samples and more sophisticated statistical methods. This direction of further research should be emphasized.

Another aspect worthy of mention pertains to high profits as a possible explanation for some changes in SRD practices by some banks to legitimize their activities. However, this is a result which is only true in the Portuguese context given some of the characteristics referred to above. This is another of the directions for future research which appear to be worthy of exploration.

Appendix 6.1: Sample banks

Banco Bilbao Vizcaya Argentaria (Portugal), S.A.
Banco BPI, S.A.
Banco Comercial dos Açores, S.A.
Banco Comercial Português, S.A.
Banco Internacional de Crédito, S.A.
BNC – Banco Nacional de Crédito, S.A.
BANIF – Banco Internacional do Funchal, S.A.
Banco Espírito Santo, S.A.
BPN – Banco Português de Negócios, S.A.
Caixa Económica Montepio Geral
Caixa Geral de Depósitos, S.A.
FINIBANCO, S.A.

Chapter 7

Exploring the importance of social responsibility disclosure for human resources

7.1 Introduction

The growing attention that corporate social responsibility (CSR) and disclosure has been receiving has focused for many years on environmental aspects. A limited emphasis on the impact of CSR related to human resources and, in particular, on the possible effects which social responsibility disclosure (SRD) has on such impact, has ensued. This is a neglected aspect of SRD research that this essay, which is grounded in a resource-based perspective (RBP), explores.

Orlitzky *et al.*'s (2003) discussion of the relationship between CSR and financial performance is on the basis of this essay. These authors argue that CSR provides internal (related to know-how and corporate culture) or external benefits (related to effects on corporate reputation), or both, and that SRD may have different value if the analysis focuses on one type of benefits or the other. In particular, they contend that whether the CSR behaviours and outcomes are disclosed to outside constituents is largely irrelevant to the development of internal resources and capabilities and organizational efficiency (Orlitzky *et al.*, 2003, p. 407).

Departing from this latter assertion, this essay contends that while companies will continue to engage in social responsibility activities for a variety of reasons that often focus on external factors, such as improved reputation, they will also do so for internal reasons related to their human resources. Furthermore, the argument that in the case of human resources these two aspects are intertwined inextricably, is explored. Companies perceived to have a strong social responsibility commitment often have an increased ability to maintain employee morale, and to attract and to retain employees. This leads to reduced turnover, recruitment, and training costs (see, for example, Albinger and Freeman, 2000; Backhaus *et al.*, 2002; Greening and Turban, 2000; Peterson, 2004; Turban and Greening, 1997). Thus, disclosure of information on a company's behaviours and outcomes regarding social responsibility may help build a positive image with employees. This is an important factor in developing employee-related internal resources and capabilities and organizational efficiency.

Another neglected aspect in SRD research which this essay explores is the use of the Internet as a disclosure medium. Most of the empirical studies analysing SRD have focused on the annual report, which is considered the most important tool used by companies to communicate with their stakeholders. However, the Internet has become an important medium through which companies can disclose information of different natures and some recent studies have analysides companies' web sites as a SRD medium (see, for example, Esrock and Leichty, 1998, 2000; Maignan and Ralston, 2002; Patten, 2002b; Cooper, 2003; Campbell and Beck, 2004). The development of the Internet has been considered "pertinent to further development of social accounting" (Epstein, 2004, p. 16).

This essay focuses on the Internet as a disclosure medium because it can be considered as a particularly useful medium to communicate with employees, more so with potential than with existing employees. In effect, as argued by Cooper (2003, p. 237), because existing employees are a stakeholder group which is internal to the company, there is probably less need to use the Internet to communicate with them. However, the Internet is probably the only disclosure media in which it is possible to evaluate a company's intention to communicate both with potential employees and with stakeholders in general. As will become clearer as the essay unfolds, these are precisely the two aspects it focuses on.

A matched pair approach is used to address the empirical question of whether the SRD on the Internet of the best companies to work for, differs from that of a benchmark group of companies. Using a RBP the working hypothesis that companies engaged in processes of trying to obtain human resource management benefits derived from CSR (the best companies to work for) disclose more social responsibility information than their counterparts (the matched companies) is tested. Each of the companies' web sites was accessed and analysed for the provision of social responsibility information. Using content analysis, SRD was classified in terms of theme (environment, human resources, products and customers and community involvement).

Results suggest that best companies to work for disclose more social responsibility information than control companies, which allows thinking that companies which want to obtain internal benefits related to human resources management recognize the need to use SRD to influence actual and potential employees' perception of reputation.

In the following two sections, the question of how a RBP can be useful in understanding the importance of CSR and disclosure is explored and the hypothesis that best companies to work for disclose more social responsibility information is proposed. Thereafter follow sections on methodology and results. Finally, some conclusions are drawn.

7.2 Theoretical framework

The RBP suggest that companies generate sustainable competitive advantages by effectively controlling and manipulating their resources that are valuable, rare, cannot be perfectly imitated, and for which no perfect substitute is available (see, for example, Barney, 1999; Bowman and Ambrosini, 2003).

The number of studies devoted to CSR which adopt a RBP, albeit in many cases combining it with other theoretical perspectives, has been growing in recent years (Branco and Rodrigues, 2006b). This tendency has begun by focusing on environmental aspects (see, for example, Hart, 1995; Russo and Fouts, 1997), but has subsequently extended to more general issues of CSR (see, for example, Bansal, 2005; Hillman and Keim, 2001). Corporate social disclosure has not escaped this tendency, through analyses which focus on environmental disclosure (see, for example, Hasseldine *et al.*, 2005; Toms, 2001).

Companies engage in CSR because it is acknowledged that some kind of competitive advantage accrues to them. From a RBP, CSR is seen as providing internal or external benefits, or both (Branco and Rodrigues, 2006b; Orlitzky *et al.*, 2003). Investments in socially responsible activities have internal benefits by helping a company in developing new resources and capabilities which are related to know-how and corporate culture. These resources and capabilities, which are acquired internally, would then lead to more efficient use of resources. Investing in social responsibility activities has important consequences on the creation or depletion of fundamental intangible resources, namely those associated with employees.

While companies may have access to valuable human capital, its deployment to achieve strategic goals is dependent upon such things as the design of work or the management of people. Even within prescribed organizational roles, employees exhibit discretion that has either positive or negative consequences to the company. Thus it is important to obtain and develop human capital with high levels of skills. It is also necessary to achieve a good alignment between the skills represented in the company and those required by its strategic needs. This is done through the attraction, development, maintenance, and retention of people. However, it is also fundamental to motivate employees to behave in such a way as to have positive consequences to the company (Wright *et al.*, 2001).

Effective human resource management can cut costs and enhance employees' productivity. CSR can be demonstrated to have positive effects on employees' motivation and morale, as well as on their commitment and loyalty to the company (Peterson, 2004). Socially responsible employment practices such as fair wages, a clean and safe working environment, training opportunities, health and education benefits for workers and their families, provision of childcare facilities, flexible work hours and job sharing, can bring direct benefits to a company by increased morale and productivity, while reducing absenteeism and staff turnover. As well as productivity benefits, companies also save on costs for recruitment and training of new employees.

The external benefits of CSR are related to its effect on corporate reputation (Branco and Rodrigues, 2006b; Orlytzky *et al.*, 2003). Companies with a good social responsibility reputation are able to improve relations with external actors such as customers, investors, bankers, suppliers and competitors. They also attract better employees or increase current employees' motivation and morale as well as their commitment and loyalty to the company, which in turn may improve financial outcomes. Disclosure of information on a company's behaviours and outcomes regarding social responsibility helps in building a positive image with stakeholders.

Teece *et al.* (1997, p. 521) see corporate reputations as shaping the responses of external actors, because they summarize a good deal of information about a company's current position and behaviour and also its probable future behaviour. These authors contend that external actors' responses are based on what they know rather than what is knowable about a company. Because asymmetry exists between what is known inside and outside the company, reputations sometimes are more important than the true state of affairs in shaping responses of external actors.

SRD is thus particularly important in enhancing the effects of CSR in corporate reputation. It has been defined broadly as the "process of communicating the social and environmental effects of organisations' economic actions to particular interest groups within society and to society at large" (Gray *et al.*, 1996, p. 3). Thus, it seeks to reflect several social and environmental aspects upon which companies' activities have an impact: employee related issues, community involvement, environmental concerns, other ethical issues, etc. SRD refers to the disclosure of information about companies' interactions with society.

Hooghiemstra (2000) argues that SRD is a communication instrument that companies use to create, protect or enhance their images or reputations. It can assist a company in the creation of a competitive advantage because "creating a positive image may imply that people are to a great extent prepared to do business with the company and buy its products" (Hooghiemstra, 2000, 64). It can be analysed as "a public relations vehicle", which is "aimed at influencing people's perceptions about the company." (Hooghiemstra, 2000, p. 57)

A RBP is thus useful in considering the role of SRD as a signal of improved social and environmental conduct and its influence on the external perception of reputation. It will be difficult for companies investing in social responsibility activities likely to create positive reputation to realise the value of such reputation without making associated disclosures (Hasseldine *et al.*, 2005; Toms, 2002).

7.3 Relevant studies and hypothesis development

The RBP suggests that companies generate sustainable competitive advantages by effectively controlling and manipulating their resources that are valuable, rare, cannot be perfectly imitated, and for which no perfect substitute is available. Human resource activities, including those that improve employee attitudes on workplace quality, are seen as fulfilling these four characteristics (Ballou *et al.*, 2003; Fulmer *et al.*, 2003; Wright *et al.*, 2001). Human resource activities can thus assist in creating a competitive advantage by developing a skilled workforce that effectively carries out the company's business strategy, leading to improved financial performance.

Several studies have attempted to analyse the relationship between company performance and employee attitudes on workplace quality. Particularly relevant for this essay is the research grounded on a RBP, such as that of Ballou *et al.* (2003) and Fulmer *et al.* (2003). Both these studies use the Fortune's annual list of "The 100 Best Companies to Work for in America" as a proxy for the existence of positive employee attitudes regarding workplace quality. They present results suggesting that workplace attitude is a source of competitive advantage that leads to a valuable intangible asset which contributes to the enhancement of financial performance. These studies provide evidence consistent with the prediction that human resource activities can be a source of competitive advantage that results in improved financial performance.

Empirical research shows that a company's social responsibility actions matter to its employees (see, for example, Albinger and Freeman, 2000; Backhaus *et al.*, 2002; Greening and Turban, 2000; Peterson, 2004; Turban and Greening, 1997). Extending previous research, the findings of Albinger and Freeman (2000) suggest that different groups of job seekers have different images of the same company as an employer and that corporate social performance becomes increasingly important when companies seek to attract highly educated applicants with a high level of job choice. Furthermore, job seekers were found to respond to corporate performance in areas that affect them directly, such as support of diversity and employee participation and benefits.

Backhaus *et al.* (2002), Greening and Turban (2000) and Turban and Greening (1997) employed social identity theory to demonstrate that individuals prefer to work for socially responsible companies because doing so enhances their self-esteem; and signalling theory to show that employees consider a company's social reputation as a signal of how it would be like to work for it.

Social identity theory suggests that individuals classify themselves into social categories based on group membership, and individuals' self-concepts are influenced, in part, by the attributes that others may infer about them based on their organizational membership. Positive corporate reputations are seen as providing enhanced self-esteem to organizational members and thus companies with good reputation are expected to attract more applicants than companies with less positive reputations (see, for example, Backhaus *et al.*, 2002; Greening and Turban, 2000; Peterson, 2004; Turban and Greening, 1997). Signalling theory suggests that because it is very difficult for job seekers to obtain information about many relevant aspects of jobs before actually working in the organization, they interpret available information as signals about the working conditions in the organization (see, for example, Backhaus *et al.,* 2002; Greening and Turban, 2000; Turban and Greening, 1997).

Turban and Greening (1997) found a positive relationship between published ratings of the corporate social performance of companies and ratings of companies' attractiveness by participants. Greening and Turban (2000) expanded on their previous study, measuring the relationship between corporate social performance and attractiveness more directly by supplying data to participants and testing the effects of that information on their perceptions. Again, they found a positive relationship between corporate social performance ratings and attractiveness ratings.

Backhaus *et al.* (2002) investigated job seekers' perceptions of the importance of corporate social performance and explored the effects of its dimensions on organizational attractiveness. Using signalling theory and social identity theory, the authors hypothesized that different dimensions of corporate social performance would have different effects on ratings of employer attractiveness and found that environment, community relations, and diversity dimensions had the largest effect on attractiveness ratings. Job seekers were found to consider corporate social performance important to assess companies and find some aspects of corporate social performance (environment, community relations, employee relations, diversity, and product issues) more relevant than others.

To the extent that employees' perceptions of corporate reputation are related to their work attitudes and/or behaviours, a company's reputation can improve performance. Riordan *et al.* (1997) suggest that employees' reactions to a company's actions will often be based on the image of the organization held by external groups. Actions of the company which lead to positive/negative reactions from external stakeholders can have direct, positive/negative effects on the company's employees. Employees' estimates of the reactions of external stakeholders to the company in which they work influence both their job satisfaction and their intentions to leave the organization. If the employee views the company to have a poor reputation, a lower job satisfaction and a higher probability of leaving will entail (*ibid.*).

Peterson (2004) examined how the attitudes of employees are influenced by the perceived social performance of their employer. The results of a survey of business professionals demonstrated that favourable perceptions of social performance were associated with higher organizational commitment and that this relationship was stronger among employees who believed highly in the importance of the social responsibility of businesses. Results also suggested that performance in the ethical domain is the most relevant with respect to organizational commitment. The results were considered to be consistent with social identity theory.

While companies will continue to engage in social responsibility activities and disclose information about them for a variety of reasons that often focus on external factors, such as improved reputation, they will also do so for the internal reasons namely related to their human resources. These two aspects are not easily separated. A good reputation can help attract better job applicants, retain them once hired, and maintain employee morale. Thus, disclosure of information on a company's behaviours and outcomes regarding social responsibility helps in building a positive image with employees. This does not restrict itself to those aspects which affect them most directly, such as a clean and safe working environment or training opportunities. Other dimensions of social performance, such as those related to the environment or community relations are also fundamental to motivate employees to behave in such a way as to have positive consequences to the company, because working for socially responsible companies enhances their self-esteem.

Companies engaged in processes of obtaining human resource management benefits derived from CSR are expected to use SRD to influence the perception of its reputation, not only by external actors such as consumers and potential employees, but also by their actual employees. Inclusion in the list of the 20 Best Companies to Work For published by Exame Portugal (Exame, 2004) was used as a proxy for the existence of such engagement.[1] The author of this essay believes that by agreeing to participate in the survey "The Best Companies to Work For", which is produced by the Great Place to Work Institute Portugal, is a clear sign of their engagement in these processes and of their intention to enhance their reputation by membership on the "Best" list. The following hypothesis is proposed: best companies to work for will be expected to disclose more social responsibility information than matched companies.

7.4 Method

7.4.1 Sample selection

The survey published by Exame magazine in 2004 on "The Best Companies to Work For" (Exame, 2004), produced by Great Place to Work Institute Portugal, was used to establish the sample for the essay: the "best companies to work for" and a benchmark group of companies selected by matching industry and size.

The initial sample included the 20 Best Companies to Work For as reported on the survey published by Exame magazine. The list of Best Companies to Work For was composed only of 20 companies, and the size of the sample used was limited by this. These companies were surveyed to determine whether they had a web site and if it was

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1 More than 800 companies were invited to participate in the survey, and more than 70 did so. The survey involved 6559 employees. Membership on the 20 Best list was determined primarily by an extensive employee attitude survey. Questionnaires were completed by a sample of employees in each company. Great Place to Work Institute Portugal received over 4400 questionnaires. The reply rate was about 68.47% and to be considered in the survey companies had to have rates of reply above 40%.
Areas addressed by the attitude survey included credibility (for example, "managers regularly communicate with employees about the company's direction and plans - and solicit their ideas"), respect (for example, "management involves people in decisions that affect their jobs or work environment"), fairness (for example, "everybody receives equitable opportunity for recognition"), pride (for example, "in personal job, individual contributions"), and camaraderie (for example, "sense of 'family' or 'team'"). Further information on the content of the employee survey can be found at www.greatplacetowork.pt.

in Portuguese. Out of the 20 companies, 6 had no web site in Portuguese[2] resulting in a remaining sample of 14 companies. Next, for the comparative purposes of this essay, each of the best companies to work for with a web site in Portuguese was matched with a control company. The matching was done by industry and size.[3] The primary source used for making the match was the SABI database from the Bureau van Dijk.[4] For only one of the companies it was not possible to find a control company. This resulted in a final sample of 26 companies: 13 included in Exame's 20 Best Companies to Work For 2004 list and 13 control companies matched by industry and size. Table 7.1 identifies both the best companies to work for and matched control companies used in this essay.

Table 7.1: Sample companies

Best companies to work for	Matched companies
BP	CEPSA
Mapfre	Victoria Seguros
DHL	Chronopost
TNT	Transnautica
Merck Sharp & Dohme	Portela
Somague	Mota e Engil
Real Seguros	Global Seguros
Jazztel	Refer
Ericsson	Samsung
Peugeot	Renault
SAS	Compta
Unysis	IBM
Europcar	Leasecar

Table 7.2 presents descriptive data on the sample companies. Company size, based on 2003 total assets, ranged from 2,014,353 € to 909,262,040 € for the best companies to work for and from 10,769,225 € to 1,242,843,852 € for the control companies. Only one of the best companies to work for is publicly traded, and the same happens with the control company.

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2 A value of zero could have been attributed to the disclosure levels of these six companies which do not a web site in Portuguese. However, these companies were excluded from the sample because it is not possible to demonstrate that they are not interested in establishing a social responsibility reputation. For example, the companies which have a web site in English may only be interested in having employees which can speak the language.

3 Using only industry and size as the criteria for matching may appear to be rather arbitrary. In effect matched companies may be different in numerous aspects such as customer base, locations, ownership and salary levels. However, from the information that the author was able to obtain (see bellow information on the database used) size and industry are considered as the most relevant aspects. On the other hand, other studies which have used a similar methodology also have used size and industry as criteria for matching (Patten, 2002; Freedman & Stagliano, 2004).

4 The SABI is a database of company accounts, ratios, activities, ownership, and management for over 850000 Spanish and 80000 Portuguese companies.

Table 7.2: Sample descriptive data

	Best companies to work for	Matched companies
Total companies	13	13
Mean company size		
Total assets	185,719,846 €	196,450,399 €
Company size ranges		
Smallest	2,014,353 €	10,769,225 €
Largest	909,262,040 €	1,242,843,852 €

7.4.2 Data capture

To measure the level of social responsibility information disclosed by sample companies, this essay uses what is commonly known as "content analysis". Content analysis is the dominant method used to examine SRD in annual reports (see, for example, Bewley and Li, 2000; Gray *et al.*, 1995; Hackston and Milne, 1996; Purushothaman *et al.*, 2000; Zéghal and Ahmed, 1990) and corporate web sites (see, for example, Patten, 2002b; Patten and Crampton, 2004; Williams and Pei, 1999). This technique consists of classifying the information disclosed into several categories of items which capture the aspects of social responsibility one wants to analyse.

The simplest form of content analysis consists of detecting the presence or absence of social responsibility information (see, for example, Brown *et al.*, 2005; Patten, 2002b; Purushothaman *et al.*, 2000). One of the main shortcomings of this form of content analysis is that it does not allow the measurement of the extent of information disclosure and, therefore, the coded data does not reflect the emphasis that companies attach to each information item (Zéghal and Ahmed, 1990, p. 42). However, the number of different topics discussed is considered as a reasonable measure of management's willingness to provide social responsibility information in general (Bewley and Li, 2000, p. 206).

Thus, the analysis of the SRD in this essay was made using a scoring system consisting in assigning a point for each CSR disclosure theme pertaining to any of the categories considered. For example, two points were assigned to a company that provided, for example, in the category of human resources, disclosures on employee training programme and employee share purchase schemes. If the same theme is discussed in more than one place, it is counted only once. Where a disclosure contained information about more than one theme it was counted as pertaining to both themes.

The use of such a system "ensures that the score a company receives is for relevant new disclosures" relating to the SRD categories (Purushothaman *et al.*, 2000, p. 115). Disclosure scores for each company are added up and not weighted. It is assumed that each item of disclosure is equally important.

To determine the nature and extent of SRD included on the corporate web sites, each of the companies' web sites was accessed during the month of August 2005 and analysed for the provision of social responsibility information. The entire web sites were examined. All links were followed, but for the following exclusions:

- neither on-line copies of the annual report (Patten and Crampton, 2004) nor on-line copies of social and/or environmental reports, where available, were included in the web site analysis;
- links to external press release disclosures were also not followed (but press releases of the companies were examined for SRD) (Patten and Crampton, 2004);
- links to company publications such as newsletters or products catalogs were not followed.

Frost *et al.* (2005, p. 91) suggest that excluding annual reports and discrete reports which are provided on-line when analysing web sites enable the collection of segregated data on the three disclosure media. These exclusions were made in view of the desire to evaluate a company's intention to communicate both with potential employees and with stakeholders in general. It is not very likely that potential employees, or for that matter any other stakeholder who wishes to obtain general information on the company, will read any of the documents mentioned above when they want to obtain general information on the company.

Several empirical studies in the area were of great utility in developing the SRD index used in this essay (see, for example, Gray *et al.*, 1995, Hackston and Milne, 1996; Patten, 2002a; Purushothaman *et al.*, 2000; Williams and Pei, 1999). SRD refers in this essay to disclosures in the following four categories:

- environmental;
- human resources;
- products and consumers;
- community involvement.

Environmental disclosure comprises disclosures relating to environmental policies, environmental management system and environmental awards (including ISO 14001 and *Eco Management and Audit Scheme* – EMAS), the environmental impacts of products and processes, environmental related expenditures, the environmental benefits of products, conservation of natural resources and recycling activities, and disclosures concerning energy efficiency. Human resources disclosure covers such issues as employee numbers and remuneration, employee share ownership, employee consultation, training and education, employment of minorities or women, and trade union information. Products and consumers disclosure encompasses disclosures related to product quality (for example, third party recognition for the quality of the company's products) and consumer relations (for example, customer complaints). Community involvement disclosure includes disclosures relating to sponsorship (e.g. of art exhibits), as well as charitable donations and activities.

The total maximum score was 30. The maximum score for each of the categories considered was 11 for environmental disclosure, 9 for human resources disclosure, 5 for products and consumers disclosure, and 5 for community involvement disclosure (Table 7.5).

7.5 Results

Results in Table 7.3 show that whereas the majority (54%) of the best companies to work for present three or four of the categories considered, the majority of the control companies do not disclose social responsibility information (31%) or only presents one (23%) of the categories considered. At this level there is an important difference between the two groups of companies.

Table 7.3: Number of social responsibility information categories disclosed

No. of categories disclosed	Best companies to work for		Matched companies	
	n	%	n	%
4	4	30.77	2	15.38
3	3	23.08	0	0.00
2	3	23.08	4	30.77
1	2	15.38	3	23.08
0	1	7.69	4	30.77
Total	13	100.00	13	100.00

Table 7.4 identifies the number of sample companies that included disclosures for each of the social responsibility content areas. The number of best companies to work for which disclose social responsibility information is always larger than the number of control companies (with the only exception of information on sponsoring sporting or recreational projects). The areas mentioned by the highest number of companies are employee morale, employee profiles, product quality, charitable donations and activities, and environmental policies or company concern for the environment.

It is in the human resources area that the difference between the disclosure of best companies to work for, and matched companies, is more apparent. As the focus in this essay was on the company's intention to obtain human resource management benefits derived from CSR, this is not an unexpected result. Companies are expected to believe this is probably the area which is of more importance to influence the potential employees' perception of its social performance. Employee morale, employee training, employee profiles and employee health and safety are the themes which appear to be of greater importance.

Table 7.4: SRD areas (categories in capital letter, items in small letter)

Categories and items of disclosure	Best companies to work for		Matched companies	
	n	%	n	%
ENVIRONMENTAL				
Environmental policies or company concern for the environment	5	38.46	3	23.08
Environmental management, systems and audit	5	38.46	1	7.69
Pollution from business operations	3	23.08	1	7.69
Pollution arising from use of product	1	7.69	0	0.00
Discussion of specific environmental laws and regulations	0	0.00	0	0.00
Prevention or repair of damage to the environment	0	0.00	0	0.00
Conservation of natural resources and recycling activities	2	15.38	1	7.69
Sustainability	2	15.38	0	0.00
Environmental aesthetics	0	0.00	0	0.00
Conservation of energy in the conduct of business operations	2	15.38	1	7.69
Energy efficiency of products	1	7.69	0	0.00
HUMAN RESOURCES				
Employee health and safety	3	23.08	1	7.69
Employment of minorities or women	1	7.69	0	0.00
Employee training	4	30.77	0	0.00
Employee assistance/benefits	1	7.69	0	0.00
Employee remuneration	0	0.00	0	0.00
Employee profiles	6	46.15	2	15.38
Employee share purchase schemes	1	7.69	0	0.00
Employee morale	9	69.23	4	30.77
Industrial relations	0	0.00	0	0.00
PRODUCTS AND CONSUMERS				
Product safety	1	7.69	0	0.00
Product quality	7	53.85	5	38.46
Disclosing of consumer safety practices	0	0.00	0	0.00
Consumer complaints/satisfaction	1	7.69	0	0.00
Provision for disabled, aged, and difficult-to-reach consumers	0	0.00	0	0.00
COMMUNITY INVOLVEMENT				
Charitable donations and activities	9	69.23	1	7.69
Support for education	3	23.08	2	15.38
Support for the arts and culture	3	23.08	2	15.38
Support for public health	2	15.38	0	0.00
Sponsoring sporting or recreational projects	1	7.69	3	23.08

Table 7.5: SRD scores

Score	Best companies to work for		Matched companies	
	No.	%	No.	%
Environmental				
0	7	53.85	10	76.92
1	0	0.00	1	7.69
2	1	7.69	1	7.69
3	3	23.08	0	0.00
4	0	0.00	1	7.69
5	2	15.38	0	0.00
Human resources				
0	3	23.08	7	53.85
1	3	23.08	5	38.46
2	3	23.08	1	7.69
3	1	7.69	0	0.00
4	2	15.38	0	0.00
5	1	7.69	0	0.00
Products and consumers				
0	5	38.46	8	61.54
1	7	53.85	5	38.46
2	1	7.69	0	0.00
Community involvement				
0	4	30.77	8	61.54
1	4	30.77	2	15.38
2	2	15.38	3	23.08
3	2	15.38	0	0.00
4	1	7.69	0	0.00

Table 7.5 identifies the content scores for each of the social responsibility content areas. Environmental disclosure is the area in which more companies in both groups do not disclose any information (7 of the best companies to work for and 10 of the control companies). On the contrary, as expected human resources disclosure is the area in which the number of companies not disclosing any information is smaller (3 of the best companies to work for and 7 of the control companies).

To determine whether the difference in SRD between the best companies to work for and the control companies was statistically significant, testing was undertaken using a non-parametric statistical method: the Mann-Whitney U test. Results are presented in Table 7.6.

Table 7.6: Test for differences in SRD scores between best companies to work for and matched companies

		Environmental disclosure	Human resources disclosure	Products and consumers disclosure	Community involvement disclosure	Total SRD
Mean score	Best companies	1.62	1.92	0.69	1.38	5.62
	Matched companies	0.54	0.54	0.38	0.62	2.08
Mean rank	Best companies	15.35	16.88	15.19	15.77	16.96
	Matched companies	11.65	10.12	11.81	11.23	10.04
Mann-Whitney U		60.5	40.5	62.5	55	39.5
Asymp. Sig. (2-tailed)		0.147	0.018	0.201	0.107	0.020
Exact Sig. [2*(1-tailed Sig.)]		0.223 [a]	0.022 [a]	0.264 [a]	0.139 [a]	0.019 [a]
Exact Sig. (2-tailed)		0.142	0.019	0.311	0.124	0.019
Exact Sig. (1-tailed)		0.071	0.010	0.156	0.062	0.009
Point Probability		0.004	0.003	0.098	0.008	0.001

[a] Not corrected for ties

Mean SRD scores suggest that best companies to work for disclose more information than matched companies. However, at a significance level of 5%, the hypothesis is only accepted for total social responsibility and human resources disclosures. Companies engaged in processes of trying to obtain human resource management benefits derived from CSR seem to use SRD on the Internet to influence the perception of its reputation, not only by external actors such as consumers and potential employees, in particular these, but also by their actual employees.

Although for environmental, products and consumers and community involvement disclosures the differences in mean disclosure scores are not statistically significant, the results do suggest that best companies to work for do disclose more social responsibility information than control companies. This is particularly true in the case of community involvement disclosure. This result, although not statistically significant, indicates that companies engaged in trying to obtain human resources management benefits derived from CSR use SRD on the Internet also to communicate with stakeholders in general.

7.6 Conclusions

CSR is related to all those aspects upon which companies' activities may have an impact: employee related issues, community involvement, environmental concerns, other ethical issues, etc. SRD refers to the disclosure of information about companies' interactions with society, and it is an important instrument in the dialog between business and society. In this essay, four categories of social responsibility information are analysed, referring to employee related issues, environmental issues, products and consumers issues, and community involvement issues.

According to the RBP, the human resource management benefits derived from CSR are a key way through which it can lead to improved financial performance. The reasons for companies engaging in CSR related to their human resources are those regarding which the separation between internal and external factors is more difficult. A good reputation can help to attract better job applicants but also plays an important role in maintaining employee morale and promoting organizational commitment, thus helping in retaining good employees.

This latter effect has a direct relation with internal aspects of CSR such as those related to health and safety at work and assistance/benefits for workers and their families (for example, health care and recreational activities). However the employees' perception of a good social responsibility reputation with other stakeholders is also responsible for internal effects of CSR. Thus, disclosure of information on a company's behaviours and outcomes regarding all aspects of social responsibility helps in the development of employee-related internal resources and capabilities.

This essay examines the use of the Internet for social responsibility information disclosure by the best companies to work for in Portugal compared to a group of matched companies. A matched pair approach is used to address the empirical question of whether the SRD of the best companies to work for differs from that of a benchmark group of companies. To carry out the investigation, the associations between the level of social responsibility information disclosure and a proxy for engagement in processes of obtaining benefits from CSR related to human resource management (inclusion in "The Best Companies to Work For" list published by Exame Portugal) is tested.

Results suggest that best companies to work for disclose more social responsibility information than control companies. Companies which are engaged in processes of developing internal assets related to human resources seem to use SRD to influence the external perception of reputation. There is some support for the fact that CSR and disclosure is used by companies for signalling facts about social responsibility management in an attempt to influence stakeholders' assessments of corporate reputation under conditions of incomplete information and at the same time influence their employees' organizational commitment.

The main contribution of this essay is related to the discussion of the interrelatedness of internal and external benefits of CSR associated to a company's human resources management and the role played by SRD. This essay presents a discussion of these aspects which is illustrated with an analysis of the Portuguese best companies to work for SRD practices compared to a group of matched companies. This essay can thus be considered to contribute to research in two ways. First, it adds to the scarce research on SRD by Portuguese companies by providing new empirical data. Second, it extends prior research using a RBP by analysing in the context of SRD the best companies to work for using a matched pair analysis.

However, this essay also presents several limitations. First, the research was encumbered by a sample size of only twenty-six companies. However, as mentioned above, the size of the sample was limited by the fact that the published list of Best Companies to Work For only includes 20 companies. Second, using only size and industry for matching companies may be considered a faulty process in spite of these two criteria being the most reliable and probably the only available criteria given the database used. Third, there might have been content analysis issues associated with the level of subjectivity involved in the coding process.

The implications of the essay are that managers need to consider SRD as a signal of improved social and environmental conduct to influence the external perception of reputation also as a way of obtaining human resource management benefits derived from CSR. Furthermore, they appear to be considering such need. Given the importance of these implications, the author of this thesis believes that it could be replicated in other countries namely those in which the lists of "best companies to work for" are larger and there are databases available which would allow to use larger samples and possibly other matching criteria.

Chapter 8

Conclusion

8.1 Summary

In this thesis companies are considered to engage in corporate social responsibility (CSR) and social responsibility disclosure (SRD) mainly because they believe they can reap some kind of benefits from such engagement. It is thus necessary to have a CSR notion which is able to address this important feature. The differing views regarding the role of business in society are often placed within the stakeholder-shareholder debate. The first essay, presented in the second chapter, argues that a useful notion of CSR should be based on a stakeholder view and should be capable of addressing both its normative and instrumental aspects. Companies are regarded to have an obligation to consider society's long-run needs and wants. This implies that they engage in activities that promote benefits for society and minimize the negative effects of their actions, so long as the company is not prejudiced by engaging in such activities.

The second essay, presented in the third chapter, contends that resource-based perspectives (RBP) are useful to understand why companies engage in CSR activities and disclosure. From a resource-based perspective CSR, is seen as providing internal or external benefits, or both. Investments in socially responsible activities have internal benefits by helping a company to develop new resources and capabilities which are related to know-how and corporate culture. Investing in social responsibility activities and disclosure has important consequences on the creation or depletion of fundamental intangible resources, especially those associated with employees. The external benefits of CSR are related to its effect on corporate reputation. Corporate reputation can be understood as a fundamental intangible resource, created or depleted as a consequence of the decisions to engage or not in social responsibility activities and disclosure. Companies with good social responsibility reputation are able to improve relations with external actors. They also attract better employees or increase current employees' motivation, morale, commitment and loyalty to the company. The essay contributes to the understanding of why CSR is seen as having strategic value for companies and how RBP can be used in such endeavour.

The third essay, presented in the fourth chapter, identifies and discusses some relevant issues in SRD research. It analyses some relevant issues in SRD research by way of a review of relevant literature. Issues in the following three main areas of SRD research are identified: the definition and characteristics of SRD; the methodologies used to capture empirical data on SRD; and how to theoretically interpret the trends of SRD. An overview of these issues is provided and some clues to understanding what is at stake are offered. Choice of methods to collect empirical data on SRD is argued to be dependent on the context in which organisations operate and the purpose of the study to be made. Because of the large array of factors affecting companies' decisions to engage in CSR activities and disclosure, the use of multi-theoretical frameworks is proposed.

The fourth essay, presented in the fifth chapter, is the first empirical study. It examines SRD on the Internet by Portuguese listed companies in 2004 and compares the Internet and 2003 annual reports as disclosure media. The results are interpreted through the lens of a multi-theoretical framework which combines social and political theories (SPT) and RBP. According to the framework adopted, companies disclose social responsibility information to present a socially responsible image so that they can legitimise their behaviours to their stakeholder groups and influence the external perception of reputation. Results suggest that a theoretical framework combining legitimacy theory and a resource-based perspective provides an explanatory basis for SRD by Portuguese listed companies.

The fifth essay (the second empirical study), presented in the sixth chapter, is grounded in a multi-theoretical framework. It combines legitimacy theory and a resource-based perspective. It examines SRD on the Internet by Portuguese banks in 2004 and 2005. It compares the Internet and 2003 and 2004 annual reports as disclosure media. According to the perspective adopted in the essay, companies with a higher public visibility are expected to exhibit greater concern to improve corporate image through social responsibility information disclosure. Size and industry affiliation are two of the most used proxies for public visibility. By using companies from one industry this essay seeks to explore size-related measures as proxies for public visibility. Results suggest that the perspective adopted is an explanation of SRD by Portuguese banks.

The sixth essay (the third empirical study), presented in the seventh chapter, examines SRD on the Internet by Portuguese companies which are engaged in processes of trying to obtain human resource management benefits derived from CSR (the best companies to work for). A matched pair approach is used to address the empirical question of whether the SRD on the Internet of the best companies to work for differs from that of a benchmark group of companies selected by matching industry and size. Using a resource-based perspective the hypothesis that the best companies to work for disclose more social responsibility information is tested. Results suggest that best companies to work for disclose more social responsibility information than control companies. This invites belief that companies which want to obtain CSR internal benefits related to their employees recognize the need to use SRD also to influence their perception of corporate reputation.

8.2 Future research

Development of RBP in order to analyse the economic potentials of social responsibility activities and disclosure is an important avenue for further research. In particular, the combination of these perspectives with social and political theories is a field of research which seems particularly promising. One problem with attempts to combine different bodies of theory to explain organizational behaviour is that they are often incommensurable or incompatible in some important aspects. The theories often focus on different core concepts. A multi-theoretical framework should focus on common core concepts. Both legitimacy theory and RBP can be conceived as subsidiary theories of the stakeholder metanarrative. Thus, these perspectives can be explored by using stakeholder theory insights. On the other hand, organisational legitimacy and organisational reputation, which are two of the core concepts in RBP and SPT, have similar antecedents, social construction processes and consequences. These aspects should be explored in future research.

Several possible extensions of the empirical studies included in the dissertation, which are not mutually exclusive, are envisaged to overcome some of the limitations present, and to add new insights to the analysis of SRD by Portuguese companies. Several limitations to the empirical studies may be identified: when compared to other studies the samples used are very small; there might be content analysis issues associated with the level of subjectivity involved in the coding process; the analysis of any trend in the evolution of the importance of SRD or the comparison with practices in other countries is not attempted. In view of these limitations, examples of extensions to the empirical studies are the use of more refined content analysis methods, analyses of the categories of SRD taken individually, the use of larger samples of companies, the use of longitudinal data and the comparison of SRD practices by Portuguese companies with foreign counterparts.

8.3 Concluding remarks

This thesis has made two major contributions to the research on corporate social responsibility and disclosure. First, it has developed an understanding of why companies engage in social responsibility practices. Second, it has contributed to extend knowledge of SRD in Portugal.

Insights have been gained which should be of benefit both at the theoretical and empirical levels. At the theoretical level, this thesis has contributed to the development of a framework which acknowledges two major influences on the social responsibility practices of companies: those related to the socio-political context within which companies operate; and those related to economic incentives. At the empirical level, it has used the theoretical framework proposed to provide new empirical data on SRD practices in Portugal. The knowledge of SRD in Portugal has been extended and the findings give reasons to explore further the framework proposed.

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