Do Markets Value Companies' Social and Environmental Activity? An Inquiry into Associations among Social Disclosure, Social Performance and Financial Performance

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Abstract

In the context of a changing world, and faced with a scientific analysis that unequivocally links corporate activity with climactic changes which might threaten humankind, any study of financial reporting needs to be placed in perspective. If the science is correct, then it is the contention of this thesis that capital market activity is complicit in the destruction of the Earth's biosphere and that accounting, in terms of the rules that govern corporate activity and the financial reporting, is an essential link in this chain. Previous research has sought to demonstrate links among social disclosure, social performance and financial performance and this thesis seeks to extend that literature by conducting two further studies, not to aid investors in their quest for further abnormal returns, but to understand the potential for financial markets to contribute to responsible business practice and the quest for sustainable development.

The first study was a statistical examination of the relationships between social and environmental disclosures and market performance of the UK's largest companies. It utilised longitudinal and cross-sectional data over a 10 year period and was tested for linear and non-linear relationships. As expected, no direct relationship between share returns and social disclosure was detected but, on further examination, the longitudinal data revealed a relationship between consistently high (or low) returns and a predisposition to high (or low) disclosure.

The second study was a qualitative, interview based inquiry into what companies report in terms of social and environmental information and how markets gather and utilise that information. Senior executives from twelve FTSE companies were interviewed to gain an understanding of why this practice had grown so significantly over the last two decades, who their intended audience might be and the place such information had in their interactions with capital markets. Thereafter, senior executives from three Mutual Assurance Companies were interviewed to seek an understanding of the nature of information they required, and upon which their investment decisions were based.

The findings of this study confirmed that social and environmental issues are of limited interest to markets except where they can be identified as relevant in terms of risk or governance. It also confirmed that there is a strong PR motivation in releasing social and

environmental reports, which has little to do with improving social performance. On the market side there was confirmation that financial returns, even in ethical funds, were the main driver behind portfolio selection.

The rather depressing conclusion from these studies is that serious moral and ethical issues are eschewed by companies and markets alike, where the focus remains on short-term performance measures.

Keywords

Social disclosure, social and environmental reporting, social performance, financial performance, financial markets, shares returns, United Kingdom, qualitative research; interviews, hermeneutics.

Contents

List of Tables

List of Figures

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Author's Declaration

I declare, except where explicit reference is made to the contribution of others, that this dissertation is the result of my own work and has not been submitted for any other degree at the University of Glasgow or any other institution.

Signature

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Chapter 1

Introduction

Following the lead of the railroads, in the last part of the nineteenth century and the early years of the twentieth, one aspect of economic life after another has come under corporate sway ...in field after field, the corporation has entered, grown, and become wholly or partially dominant…On the basis of its development in the past we may look forward to a time when practically all economic activity will be carried out under corporate form. (, p 26 Berle and Means, 1932)

1.1 Introduction

It is now over 20 years since the Brundtland Commission deliberated on, i*nter alia*, 'environmental strategies for achieving sustainable development by the year 2000 and beyond' (WCED, 1987). Having sat for almost 3 years the Commission finally agreed on a definition of sustainable development which has set a challenge to industry that, to this day, few companies have confronted let alone embraced. The authors may well reflect with some disappointment on the lack of progress made since the publication of the report. It is also likely that they would be even more alarmed had they been able to foresee the escalation of the threat to the environment posed by the effect of industrial activity on climate change, since the connection between industrial activity and climate change, suspected by many for many years, is now beyond scientific doubt[1].

In response, over the last few years, individual companies plus industrial and corporate groupings have responded in many ways in an effort to reassure relevant stakeholders that they are aware of their responsibilities. One key way is the extensive use of social and environmental disclosures by corporations. These take many forms, sometimes being part of the annual report, but more often, especially in recent times, included in a separate report, variously known as a social and environmental, corporate social responsibility, or sustainability report. Surveys conducted on a three yearly basis since 1993 by KPMG, have demonstrated without deviation, an upward trend in social disclosures[2]. If social disclosure is a genuine proxy for social performance, an issue which is developed in more detail in Chapters 3 and 4 of this thesis, then an increase in social disclosure should be an indication of better social performance. If this is the case, and a link can be made to improved performance in the market, it might serve as a massive inventive[incentive] for companies to adopt a sustainability agenda.

While companies' response to corporate social responsibility agendas has been noted and researched widely by academics from many disciplines, and the form and content of

1 The data contained later in this Chapter is taken from the Third Assessment Report of the Intergovernmental Panel on Climate Change (IPCC), published in 2001. The findings of The Fourth Assessment Report prompted the Director of UNEP, Achim Steiner, at the press launch, to say "Friday, 2 February 2007 may go down in history as the day when the question mark was removed from the question of whether climate change has anything to do with human activities". Full details, and all reports, are available at www.ipcc.ch/pub/pub.htm, but the full report awaits.

2 www.kpmg.com

social disclosures has also been subject to scrutiny, particularly within the accounting discipline, the role and association of these social disclosures with the capital markets has not been similarly examined in the UK, nor by a longitudinal study. Yet, capital markets provide the context within which corporate activity operates, and markets react to signals that companies emit, and dispense rewards and punishments accordingly. Behaviour of a specific sort is seen as a 'good' signal to the market and other forms of behaviour are seen as transmitting poor signals. The result is a movement in share price which is supposed to reflect the net present value of the future cash flows, discounted at the appropriate cost of capital[3]. Share prices thus move to the receipt of 'new information', and it is this 'information', normally collected and released as part of the accounting process, that is of interest in this work. It has long been acknowledged that there is some doubt about whether good news, in terms of social and environmental information, has any effect on market prices, and, therefore, company valuation. However, it is suspected that certain initiatives, such as spending announcements on longer term projects perhaps necessary in the cause of sustainable development, might potentially convey the 'wrong' message to the market and run the risk of adversely affecting company values. If this is so, then the possibility exists that markets may create obstacles to sustainable development. This possibility, although acknowledged by business leaders at a senior level (Schmidheiny, 1992, Schmidheiny and Zorraquin, 1996), has received less attention from researchers.

1.2 Aims and Research Question

This thesis seeks to address this issue by extending and clarifying aspects of the debate. It will do this by exploring the association between sustainability and capital markets, and examine the role of both mainstream and social and environmental accounting research in this context. Specifically, the key research question is:

- Do markets place a value on companies' social and environmental activities?

In seeking to address this question, the following subsidiary research questions will also be investigated:

[3] This is now the accepted way that firms are valued, based on the change of emphasis which occurred in the 1970s away from valuations based on accounting numbers. See, for example, Stern and Chew (1998).

- Given the voluntary nature of social and environmental disclosures, what motivates companies to undertake such practice?
- Who do company executives see as the ‘audience’ for social reports?
- Do company executives believe there may be a ‘market effect’ in releasing a social report?
- Do market participants use the information in social reports in valuing securities?

The thesis will examine these questions by undertaking two empirical studies, one quantitative and one qualitative, in order to gain new insights into the associations among social disclosure, social performance and financial performance. The first, quantitative, study examines the association between social disclosures and share returns, using both longitudinal and cross-sectional data, the first time this has been done in a UK context. Using statistical analysis, it explores whether a relationship exists between the social and environmental disclosures of FTSE 100 companies and their share returns to investors.

The second, qualitative, study further explores the motivations to make social and environmental disclosures through interviews with company executives and market participants. The study uses a hermeneutic methodological framework to gain a deep understanding of the processes at work in motivating corporate social disclosures.

The remainder of this chapter outlines the context of the study in more detail, by examining the background to the notion of sustainable development, and the challenges it poses to current industrial and commercial practices. The concept of sustainable development is examined in its historical context, and the conditions which led to the Brundtland Commission Report of 1987, are discussed. The Report also led to a definition of sustainable development which continues to pose enormous challenges to business in its current form. This definition is deconstructed and the various elements examined in order to further explain these challenges. The Report also pointed out two limiting factors in the path to sustainable development: the impact of social organisation on the environment on one hand, and the limited ability of the biosphere to cope with human activity on the other. These two limitations are examined, especially in light of recent findings by the climate change scientists of the Intergovernmental Panel on Climate Change (IPCC). The links between sustainable development and capital markets are then introduced and discussed in the context of accounting information, in its conventional form.

1.3 Background Context to the Study

1.3.1 Sustainable Development

The Brundtland Commission was established by the United Nations in 1984, as the result of a process that can be traced back to the 1960s when environmental concerns became the focus of various pressure groups. *Silent Spring* (Carson, 1962) had raised popular consciousness about the dangers of excessive pesticide use and some progress had been made in improving air and water quality in industrialised areas through 'Clean Air' acts and the like. By the early 1970s Friends of the Earth and Greenpeace had been established in response to the perceived dangers posed to the planet by such phenomena as nuclear tests and dam building.

However the calls for a UN conference on the environment originated from the Swedish Ambassador to the UN who was particularly concerned with the effects of 'acid rain' and the acidification of the water systems in Scandinavia. Interestingly, by the time the conference took place, in Stockholm in 1972, the issue of pollution widened to include the problems being experienced by developing countries. In 1971, a UN sponsored meeting of experts in pollution met in Founex, Switzerland and, for the first time, made the explicit connection between industrial development, which was a perceived desire of developing nations, and environmental degradation, which was seen as the price the nation had to pay. Indeed, environmental protection was seen as one of the limiting factors to development (Grubb et al., 1993). However, in a rather contradictory consensus, this meeting concluded that 'there is no inherent contradiction between environment and development, and that these two concerns should be mutually supportive' (Engfeldt, 2002).

Although this particular conundrum was not settled at Stockholm, in many ways the conference was of greater international significance than is often reported. It involved the participation of not only more than 100 countries, but of over 400 intergovernmental, and non-governmental organisations (NGOs). It ended with the *Stockholm Declaration on*

Human Environment and the *Action Plan for the Human Environment.* In sum, it not only raised 'the environment' to national consciousness, but placed it firmly on the international agenda[4]. Indeed, within 20 years of the end of the conference over 100 countries had a government department dealing with the environment. Also the principles of the sovereign right to exploit national resources and the responsibility for trans-boundary pollution became explicit, and were subsequently ratified in international agreements. It also led to the establishment of the United Nations Environment Program (UNEP) a year later[5].

However, throughout the 1970s there was continuing concern about a number of issues that impacted on notions of justice and fairness. The oil supply crisis in 1973 caused oil prices to rise to their highest ever (after inflation adjustment) levels. While Third-World debt was already rising, this enormous rise in oil prices brought debt to crisis levels. Equally, a number of projects designed to aid prosperity in the developing world, particularly huge hydro-electric schemes involving dam building and population relocation, were criticised for the adverse social and environmental ramifications.

In 1982, a special session of UNEP's governing Council was convened to discuss Stockholm, 'ten years on'. It was here that it was decided that something much more radical and wide-ranging was needed to look much further forward. It was felt that while the world economy had grown considerably the least developed countries had made little ground, and in fact many had seen a fall in per-capita production during the 1980s (Tolba and El-Kholy, 1992). It was at this point that UN convened the World Commission on Environment and Development under Gro Harlem Brundtland[6], 'at a time of unprecedented growth in pressures on the global environment, with grave predictions about the human future becoming commonplace'. Its aim was to build a future 'more prosperous, more just, and more secure', resting on ecologically based policies and practices. Even at the outset, however, there was an overwhelming conviction that, in

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[4] It also signified a triumph for the efforts of an individual who was to rise to considerable prominence in the UN environmental initiatives. It was Maurice Strong who was appointed Secretary-General of the Stockholm Conference because it was felt that he had the necessary connections to get both the developing and developed nations to cooperate. There is also evidence that it was Strong's personal intervention that led to China's participation.

[5] The headquarters of UNEP is in Nairobi, and its first Executive Director was Strong.

[6] Again, Strong was one of the Commissioners.

order to attain this goal, 'significant changes in current approaches', would have to be confronted, which would involve changes is individual attitudes and lifestyles, and, more crucially, 'changes in certain critical policies… and the nature of co-operation between governments, business, science and people' (WCED, 1987, p. 356).

The significantly different approach that this Commission took was to try and conceptualize the relationship between the environment and development, in light of the continuing disparity between levels of prosperity in the Northern hemisphere and the Southern, and the sentiments expressed at Founex in 1971.

During the sitting of the Commission, which was to last two and a half years, a number of unprecedented events occurred which threw its work into stark relief. The famine in Ethiopia, which led to the death of over a million people, was brought to us in graphic detail that left no thinking person unmoved. It led to the 'Band-Aid' concerts in London and Philadelphia, transmitted on television non-stop for over 16 hours. The role of the government of Ethiopia in terms of its willingness, and ability, to help it own peoples was questioned amid accusations of corruption and ineptitude[7].

Almost unnoticed at the time, the 'hole' in the ozone layer over Antarctica was discovered by British Scientist Joe Farman. The importance of this discovery was not fully understood at the time, and met with some scepticism as it was not immediately corroborated by US monitoring satellites. Once the monitoring parameters were adjusted to access the data, however, and the phenomena was confirmed, the implications began to impact on policymakers.

As these events unfolded another tragedy struck, this time in Bhopal, in India. Union Carbide, who had established a site in Bhopal in 1969 to manufacture pesticides, initially imported one of the key ingredients, methyl isocyanate (MIC), before developing its on-site manufacturing facility in 1979. It seems clear from subsequent investigations that the level of maintenance was woefully short of what was necessary. In November 1984 a leak

[7] Since then, and despite massive amounts of aid raised in the west to the starving of Africa, more famines occur and continuing allegations of malpractice are laid at the feet of host governments.

of MIC caused the deaths of some 20,000 people. The health of over 120,000 remains affected by the effects of the gas, and the site is still not considered safe[8].

In late April 1986 a nuclear reactor at Chernobyl in the USSR (now Ukraine) exploded and 30 people were killed at the scene. Again, lack of maintenance was cited as the main cause, and, like Bhopal, the legacy remains[9].

The developed world did not escape either, as agricultural chemicals and solvents leaked into the River Rhine following a chemical spill on the outbreak of fire at a factory in Basle, Switzerland, in November 1986, operated by the pharmaceutical conglomerate, Sandoz. The Swiss government failed to act quickly enough to contain the spill, and as a result the drinking water of millions of people was affected, and countless fish died.

Some of these events are acknowledged as having an impact on the Commission (WCED, 1987, p.3), and what emerged was a vision for a sustainable future dependent on some fundamental changes to what, in the West, had become an accepted pattern of living; where standards of living are measured in terms of capital accumulation, levels of technological application, travel options, etc. In this vision, the environment was to be placed at the centre of strategic decision making. Rather than being seen as a limiting factor in the cause of continued development, the environment was to be seen as an ‘aspect of policy’ if growth was to be sustained (Grubb et al., 1993). It also articulated notions of justice and fairness to the peoples of the developing world, in terms of fair shares of the world’s resources, and redistribution of wealth to improve the standards of living of the world’s worst off.

> ‘Humanity has the ability to make development sustainable – to ensure that it meets the needs of the present generation without compromising the ability of future generations to meet their own needs. The concept of sustainable development does imply limits – not absolute limits, but limitations imposed by the present state of technology and social

8 There are many websites which chronicle the sad tale of Bhopal, and the tragedy surrounding those affected.

9 Incidences of thyroid cancer in children up to 15 years old increased tenfold between 1986 and 1997, and it is feared that about 2,500 people have died as the direct consequence of the radiation leak.

organization on environmental resources and by the ability of the biosphere to absorb the effect of human activities.' (WCED, 1987, p.8)

This 'definition' of sustainable development '…meeting the needs of the present generation without compromising the ability of future generations to meet their own needs', as it has come to be portrayed, carries with it a number of implications and equally, a number of challenges to the business world. The implications of the phrase, 'meeting the needs of the present generation', suggest fair distributions across the present population of the world in terms of quality of life, measured, perhaps, by comparative standards of living or benefits from sharing the resources of the planet. It also suggests that what resources are utilised are done so in as efficient a manner as possible. The same notions pertain when applied to the needs of successive generations. These are the dimensions of eco-justice and eco-efficiency, so often associated with commentaries on this definition (See, for example, Gray, 1992, Hawken, 1993, Welford, 1995, Daly, 1996, Elkington, 1998, Birkin, 2000, Gray and Bebbington, 2000, Suranyi, 2000, Bebbington, 2001, Epstein and Roy, 2001, Gray, 2002a, Gray and Collison, 2003, Bebbington et al., 2004, Gray, 2006a).

If we break down the definition and look at the component parts we begin to unravel the complexity of the idea and begin to understand why it poses such a potential challenge to present commercial activity. 'Development that meets the needs of the present generation', suggests fair distributions across the present population of the world in terms of quality of life, measured, perhaps, by comparative standards of living or benefits from sharing the resources of the planet. There is some evidence that this is not happening at the present time. If we reflect on living standards in terms of western developed societies, and think of the comforts the majority of the population enjoy, we can still observe that there are levels of inequality many find unacceptable, and which in extreme cases have resulted in civil unrest[10]. If we then reflect on the developing world, we need little reminding that poverty and famine still blight many peoples of the world. For example,

[10] The Times, 4 November 2005 reported that 'The poor suburbs of Paris were set ablaze in the worst of eight consecutive nights of rioting, with 500 cars torched and a gym and primary school razed.' The report continued, 'Unemployment among French men aged 15 to 24 has risen from 15 per cent four years ago to more than 22 per cent. It is thought to be as high as 30-40 per cent among young second- and third-generation immigrants in poorer high-rise suburbs.

just over 50 per cent of Africa's 812 million people have access to safe drinking water.[11] It can be argued, therefore, that we are not achieving the first of the tenets of sustainable development, and if that is the case and we are not meeting the needs of the present generation, it is logical to ask if the next generation will fare any better. (See, for example, Gray, 1992, Elkington, 1998, Bebbington, 2001, Bebbington et al., 2004, Gray, 2006a)

1.3.2 The Challenge to Business

The challenge this offers business is in how commercial activity can be organised to address the needs of the peoples of the world when the neo-classical theory of the firm suggests that the over-riding imperative is to maximise shareholder wealth. Putting environmental or social issues at the heart of business strategy is a more challenging proposition, and if these strategies seriously seek to address social justice issues, then the challenges become even more profound.

Wrapped up in this definition also, are notions of eco-justice and eco-efficiency. By eco-justice we mean that there is some fairness applied to the distribution of benefits which accrue from the development of the world's resources. To read the history of Britain's and other European nations' colonial past, for example, is to read how one country sought to exploit the resources of many other countries without particularly considering the needs of the indigenous peoples. Robins (2006) draws parallels between the companies that led the colonial charge and today's multinationals, and is not alone in believing that commercial exploitation continues to ignore the needs of local communities, and that often the profits from such activities leave the host country to benefit shareholders and investors far removed from the theatres of activity.

Eco-justice is often interpreted as laying the blame at business's door for impacts that may not have been anticipated at the time, or even substantiated by the evidence. Even when legal decisions such as those against GE over the Hudson River or the case of Exxon Valdez show companies are culpable, pointing fingers of blame may not motivate companies to be environmentally responsible.

[11] UNEP, see www.unep.org

Eco-efficiency, on the other hand, is a concept that has an appeal to business. The idea that one should 'get more from less', is the sort of challenge that a company can rise to, and there is ample evidence that industrial processes are becoming more efficient, and it is in this area that we see most innovation. There are good commercial reasons for this, but also drivers from outside the economic sphere. Most of these stem from an increasing realisation that industrial activity poses specific threats to the world's environmental health. However, it is important not to conflate notions of eco-efficiency with sustainable development. Eco-efficiency may well become the goal of each commercial entity but that, in itself, might not prevent overall world resources from becoming depleted.

It is also important to note that the statement by the Commission is predicated on two limitations: that of the present impact of technology and social organization on the environment; and the limited ability of the biosphere to cope with human activity. These two limitations are clearly linked, but it is within the gift of the human race to alter the parameters of first limitation, but not the second. This begs the question, however, of how we might organise ourselves to achieve this. Unfortunately, the evidence suggests that that, in many ways, human activity, in aggregate, is uncontrollable. Yet we cannot get away from the parameters of the second limitation. We have seen from the evidence presented above, that the second limitation is, indeed, inescapable.

1.3.3 Social Organization as 'Uncontrollable'

I suggest that social order is uncontrollable because of the two overriding features of modern social and political life: firstly, the political imperative of promoting economic growth at all costs, and secondly (and inexorably connected to the first), the commercial pressure to maximise shareholder wealth.

Firstly, there appears to be little political will in any western government to take any significant steps to deal with threats to the biosphere. This approach is typified, for example, by the performance of the present Labour government in the UK. From a starting point of a promise in 1997 to 'put concern for the environment at the heart of policy-making' (Labour Party, 1997), the then Prime Minister, Tony Blair, issued a number of speeches, each of which hinted at the 'green credentials' of the Labour Party for the years to come. For example, in a speech to the General Assembly of the UN a month after the election victory he said:

> 'This earth is the only planet in the solar system with an environment that can sustain life. Our solemn duty as leaders of the world is to treasure that precious heritage and to hand on to our children and grandchildren an environment that will enable them to enjoy the same full life that we took for granted'.[12]

Such words have been repeated time and again since 1997, yet in March 2006 it was announced that Britain was going to fail to meets its 2010 targets for CO_2 emissions. The government reacted by reducing the projection from 20% below 1990 levels to between 15-18%. Margaret Becket, the Environment Secretary, in announcing the reduced projection also added that 'such targets would not be met by government alone', and urged the public to think of ways they could reduce emissions[13].

This is despite the fact that the emissions targets were maintained in the UK 2003 Energy White Paper. In fact the White Paper went further and announced a target reduction of 60% by 2050. The Council for Science and Technology in their report (CST, 2005), acknowledged that these goals would be hard to achieve. It added:

> 'If the UK misses these targets it will lose credibility, reducing its influence and ability to lead. The objective of a 60% cut in carbon emissions by 2050 and at the same time, an increased security of supply, is the challenge. Over this period, the expected economic growth rate will be 2.5-3.0% so the White Paper goals must be met within the context of a growing, not static, UK economy. Since 1997, CO_2 emissions have not fallen at all; carbon emission levels will be under pressure from increasing air travel, car usage and the closure of most of the UK's nuclear generation facilities'.

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[12] 23 June 1997. Available at: www.pm.gov.uk/output/Page1045.asp
[13] Reported in 'The Guardian' 29 March 2006

The failure to meet the first target set under the Kyoto Protocol was met by the following repost from Tony Juniper, Executive Director of Friends of the Earth:

> 'The great failing at the heart of this Government's policy on climate change is now very clear. While Tony Blair has rightly recognized the scale of the problem he and his ministers have not taken the steps necessary to ensure that transport, energy and economic policies actually cut carbon emissions '[14].

Despite this apparent setback, the Prime Minister, at a meeting of the G8 in February 2006 urged the US, China and India to join a global offensive to tackle the problem of climate change while ruling out any tax on airline tickets for British airline passengers[15]. In another speech Tony Blair suggested another reason for the failure of politicians to deliver on such issues:

> 'The trouble with long-term issues is that they seldom fit political time-scales. The impact of some of the measures we announce today will not be felt under this Government, or even this generation. We have to do what is right for the long-term. The truth is investment now to meet the challenge of these issues is worth every penny in the long-term. But the polarity is there. And it is dangerous. It divides sometimes along left/right lines. It divides along North/South lines. It divides the US and its allies from the rest'[16].

It is likely that, in the final analysis, politicians are in the business of being re-elected, and that anything they do which might alienate any sector of society must be treated with caution. If that includes alienating big business whose motivation is also prolonged economic growth, then there may be an added problem, since political parties depend on funding from business leaders to finance election campaigns.

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[14] Reported in 'The Guardian' 29 March 2006
[15] Reported in 'The Independent' 8 February 2006
[16] 24 February 2003 http://www.pm.gov.uk/output/Page3073.asp

Secondly, in the same way that politicians need money from business leaders, so business leaders need supportive policies from government. Anything that stands in the way of company growth is seen as a threat to competitiveness and is resisted. In the absence of regulation it is illogical to expect companies, individually, to alter their position and risk a downturn in share price or profitability. More pernicious, however, is the effort and money that is committed by business to influence government policy (in Chapter 3 the role, impact and power of Trans National Corporations (TNC's) is explored in greater detail).

1.3.4 Ecological Limitations as 'Inescapable'

The notion that the planet has a finite capability to absorb or process the results of human activity is the underlying theory of sustainable development, yet even in the mid 1980s the scientific basis for concern was only emerging. Indeed, between 1940 and 1970 as the mean worldwide temperature cooled by 0.2 ^{o}C, so interest in the phenomena of 'greenhouse' effects had waned somewhat from a passing interest up to 1940. However, following the First World Climate Conference in Geneva in 1979, a predominantly scientific gathering sponsored by the World Meteorological Organization, a call was put out to governments to 'foresee and prevent potential man-made changes in climate' (WMO, 1979). The first serious concerns were raised in 1985 when UNEP and WMO jointly organised a scientific conference in Villach, Austria. Here, predictions were made of the possibility of global temperature rises greater than in all history, and as a consequence, sea level rises of over 1 metre by 2050 (ICSU/UNEP/WMO, 1986). In addition, a year later UNEP published a further report, 'Environmental Perspectives to the Year 2000 and Beyond', which provided a framework to operationalize the findings of the Brundtland Commission, and led the UN General Assembly to convene the Conference on Environment and Development (UNCED), the 'Earth Summit', held in Rio de Janiero in June 1992.

Prior to the Conference the UN had begun to frame a document for ratification at Rio. The UN Framework Convention on Climate Change (UNFCCC) was adopted by the UN in 1992, and became open for signature at Rio. By June 1993, it had received 166 signatures. It has since been ratified by 189 states[17]. However, the scepticism held in some quarters on the science of climate change is clear in the wording of the original document, where a precautionary approach is urged 'in the absence of scientific certainty'. A tension was developing within governments between appearing to support calls for a cut in emissions, on the one hand, and the political imperative of doing nothing to threaten economic growth within their own economies.

In 1997 the UNFCCC held a summit in Kyoto to try and bind countries into a legally binding protocol to reduce greenhouse emissions. The Kyoto Protocol, as it became known, which came into force in 2005, was to be remembered as much for those who refused to ratify the agreement as for the measures that were proposed. Notably the United States would not sign, for fear of harming its own economic growth prospects, and this stance was also adopted by Australia, Japan, China, South Korea and India.[18] This position has become entrenched by these countries with the formation of the 'The Asia-Pacific Partnership on Clean Development and Climate', also known as AP6. This non-treaty pact is designed to allow Foreign, Environment and Energy Ministers from partner countries to collaborate to develop technology designed to reduce emissions. Unlike the Kyoto Protocol, which imposes limits on emissions, this agreement allows the member countries to set their own goals.

Yet, while all this political activity was going on, more and more conclusive evidence was emerging about the inevitability and immediacy of the threats from global warming and climate change. Throughout 2005 and into 2006 there appeared to be news, on an almost daily basis of new evidence of the science or the likely effects of climate change. Centres of research like the Hadley Centre operated by the UK Meteorological Office, and the Tyndall Centre for Climate Change have each published numerous reports on the subject, and countless articles have been published in scientific journals like *Science* and *Nature.*

[17] See: http://unfccc.int/2860.php
[18] The alignment in policy between the government of a country and the economic desires of its most significant corporations is nothing new, but as the size of some commercial enterprises now dwarf the GDP of many small nations, the issue has attracted widespread popular interest in the last few years (see, for example, Klein, 2000, Monbiot, 2000, Hertz, 2001b).

Scientific enquiry has taken many forms, from the examination of ice cores and ancient coral, to thermal photography and mapping flood levels. Most of these studies require some form of interpretation, which is often contested by the ‘climate change deniers’, but the fact that the three warmest years on record have occurred since 1998, and 19 of the warmest 20 since 1980, should be compelling for most. Scientists for the UN Intergovernmental Panel on Climate Change now accept, not only that global warming is happening, but that it is as a result of human activity. The graphs in Fig 1.1, below show how levels in the key greenhouse emissions have increased significantly since 1900, and more especially since 1950, and in Fig 1.2 the rising temperature of the earth’s surface temperature is plotted.

Figure 1.1: Influences of the human influence on the atmosphere during the industrial era.

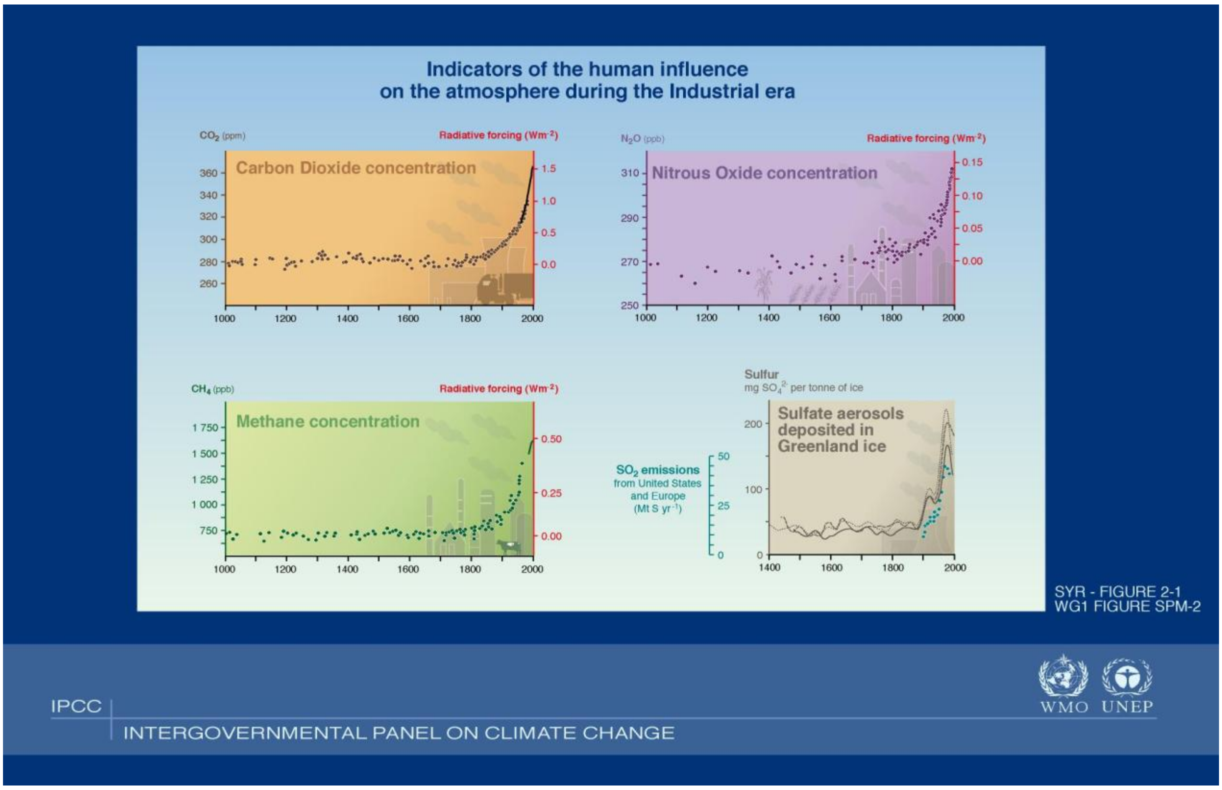
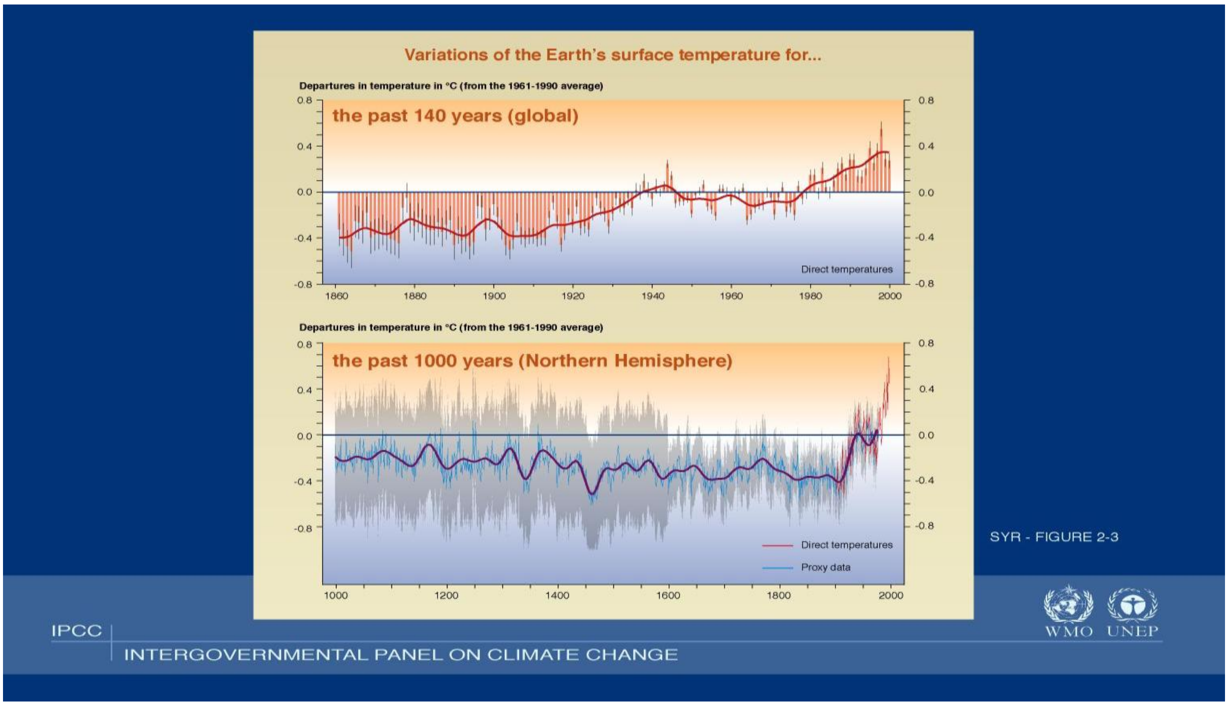


Figure 1.2: Variations in the earth's surface temperature



1.3.5 Reconciling the 'Uncontrollable' and the 'Inescapable'.

Despite the weight of evidence that has been, and continues to be, built there is still political pressure in some quarters to deny the science. In a recent issue of the New Scientist it was reported that US agencies were accused of muzzling climate experts:

> 'The top officials at the US National Oceanic and Atmospheric Administration (NOAA) are "unapologetic about egregious censorship", says Jerry Mahlmann, a former NOAA scientist and director of one of its labs. According to Mahlmann, NOAA suppressed reports about record high temperatures last year, as well as objections from its scientists to the agency's claim that there was no link between global warming and last year's unprecedented hurricane season. Scientists who still work for the agency won't speak out publicly. "There's concern about retaliation," says Rick Piltz, who resigned in protest last year from NOAA's Climate Change office'[19].

It is not just in the US that government seeks to influence the agenda. In the UK in January 2004, the Chief Scientific Officer, David King announced that, 'climate change is the most severe problem that we are facing today – more serious even than the threat of terrorism' (King, 2004). Yet in September 2005, at a meeting of climate change specialists, Sir David announced that a "reasonable" target for stabilising carbon dioxide in the atmosphere was 550 parts of the gas per million parts of air. He suggested that it 'would be politically unrealistic to demand anything lower'[20]. And in Russia, the consistently belligerent attitude of its senior politicians was summed up by the President, Vladimir Putin, who said, 'an increase of two or three degrees wouldn't be so bad for a northern country like Russia. We could spend less on fur coats, and the grain harvest would go up.' However, it is not surprising since he counts among his advisors the likes of Yuri Izrael, director of the Institute of Global Climate and Ecology Studies in Moscow, who suggests that the answer to global warming is a strategy which mimics the

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[19] From issue 2540 of New Scientist magazine, 25 February 2006, page 7

[20] David King, 21st September 2005. Speech to the Decarbonising the UK conference, Church House, Westminster.

after-effects of a major volcanic eruption, which tends to reduce solar radiation. Izrael asks:

> 'Why do not we leave carbon dioxide alone? It means no harm to climate as far as I am concerned. Let us reduce the solar radiation by 0.3%-0.5%. Consequently, we will not need the Kyoto Protocol that provides for the reduction of carbon dioxide emissions. The most effective way to reduce the solar radiation is to pump aerosol particles into the stratosphere. To lower the earth's atmosphere temperatures by 1-2 degrees, we will need to pump into the stratosphere about 600 thousand tons of aerosol particles. The above amount of aerosols can be produced by burning 200 thousand tons of sulfur. Burning sulfur up there is not a must. Instead, aircraft could use fuel with a high content of sulfur...'[21]

In Russia, this sort of behaviour is not without precedent, with the almost catastrophic ramifications of the Lysenko affair still, surely, within living memory of many Russians. At least, under Stalin, Lysenko had the excuse, in damning Mendel's theories of heredity and genes, of following a political ideology. But if Lysenko's brand of 'pseudoscience' can be justified, by condemning conventional wisdom as bourgeois, there should be no such excuse today. Yet, today's pseudo-scientists still support dissenting governments' positions on climate change. This is probably for reasons of sycophancy in the case of Mr Izrael, but of slightly more concern might be the positions taken up by the likes of Myron Ebell and the US Competitive Enterprise Institute, which is funded by corporations with an interest in resisting regulation in any form. This is the pressure group that advises the White House on policy, and on global warming it takes the following stance:

> 'Although global warming has been described as the greatest threat facing mankind, the policies designed to address global warming actually pose a greater threat. The Kyoto Protocol and similar domestic

[21] Reported in *Pravda*, 3.12.2005

> schemes to ration carbon-based energy use would do little to slow carbon dioxide emissions…..Luckily, predictions of the extent of future warming are based on implausible scientific and economic assumptions, and the negative impacts of predicted warming have been vastly exaggerated. In the unlikely event that global warming turns out to be a problem, the correct approach is not energy rationing, but rather long-term technological transformation and building resiliency in societies by increasing wealth. CEI has been a leader in the fight against the global warming scare.'[22]

The threats posed to progress against climate change by commercial interests came to a head at the Johannesburg Summit in 2002. Ricardo Navarro, chairman of Friends of the Earth International, said: 'We should never have such shameful summits again. We feel anger and despair because world leaders have sold out to the World Trade Organization and big business. They have done nothing for the poor.'[23] Venezuela's President Hugo Chavez said the summit had turned out to be 'a 10-day dialogue of the deaf.'[24]

Thus, against a background of scientific evidence that is without challenge by scientists[25], there is still a strong lobby which persuades political leaders not to take action. There is speculation that governments are reluctant to regulate for fear either of offending major sponsors, or rendering companies uncompetitive against international rivals, thereafter sending the country into recession.

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[22] www.cei.org . The CEI has received $1,645,000 from ExxonMobil between 1998 - 2004. This amount has been extracted from Annual Reports and 'Giving' reports. It is ironic that these donations are listed under the general heading of corporate philanthropy, as the CEI is a 'Not for Profit' Organisation. For more information see: www.exxonsecrets.org

[23] Alister Doyle and Alastair Macdonald, Reuters, Friday, September 06, 2002

[24] ibid

[25] See (2004), where the consensus among scientists was tested by analyzing 928 abstracts, published in refereed scientific journals between 1993 and 2003, and listed in the ISI database with the keywords 'global climate change'. There were no studies which disagreed with the hypothesis that climate change was linked to industrial activity.

1.4 Capital Markets and Sustainable development

Whilst it is difficult to prove the links political parties have with major corporations or the pressure exerted by companies on politicians to do their bidding[26], market behaviour is easier to observe. Equally, over time theories have been developed to help us understand how markets react to certain information, or in anticipation of such information. The idea that markets react to good and bad signals, and that these signals relate to potential income streams has been accepted in finance theory since they were first analysed (Leyland and Pyle, 1977). 'Good' signals would include, for example, earnings announcements above analyst's forecasts, changes in top management of an ailing company, new product or market announcements, etc. 'Bad' signals would be the opposite, and equally, any hint of government intervention either by taxation or regulation is seen as a bad signal. In this case a fall in share price may be predicted, and this may be seen to have macro-economic consequences.

Another 'bad' signal is expenditure announcements by companies on projects which may not be associated with increases in earnings. It is in this category that markets may be seen as discouraging initiatives which may be essential if a sustainability agenda is to be a meaningful process. This is exemplified by the example of Drax Power PLC who switched from burning a mixture of biomass and coal to coal alone as energy prices increased. For a company that burns 13 million tons of coal and emits 21 million tons of CO_2 (more CO_2 than 100 small countries[27]) this 'good' signal had a dramatic effect. Profits increased by 2,338% for the first six months of 2006, and the share price moved from 640p in March 2006 to 1080p in August 2006[28].

In the face of this form of reward, it is difficult to see how capital markets can contribute to sustainable development. Structures of corporate governance continue to place shareholders as the prime stakeholder and the doctrine of wealth maximisation at the centre of any debate on company reform. Company rhetoric stresses sustainable development within the goals of shareholders, not the planet's ability to cope with industrial activity. This is adequately summed up in the words of Sir Robert Wilson,

[26] For some insight, however, see Kennedy (2004)
[27] www. corporatewatch.org.uk
[28] The Guardian 13 September 2006, and www.hemscott.net

former Chairman of Rio Tinto, and World Business Council for Sustainable Development (WBCSD) Order of Outstanding Contributors, who said,

> 'Sustainable development is not, and never should be, wishy-washy altruism. Our shareholders need to be satisfied that we are pursuing their best long-term interests. If they are not convinced that we are doing so, then they will simply replace us with others who do. There must, then, be a "business case" for sustainable development…Whilst I do not suggest that the benefits of sustainable development are measurable in P/L terms, it is possible to look at long-term performance of the companies which embrace sustainable development. I have not made broadly-based studies but I do know that in terms of total shareholder return, Rio Tinto has consistently outperformed its industry for well over a decade[29]'

1.5 The Implication of Conventional Accounting

The place accounting plays in this process cannot be overstated. From its generic role in delivering a 'language of business', to the more specific functions of measuring performance and profit and reporting results, both financial and non-financial, to external stakeholders and all the internal management accounting techniques designed to deliver greater 'efficiency' and output, accounting is the lifeblood of all capitalist endeavour. It does it well and its techniques are so well accepted that they are deemed 'Generally Accepted Accounting Principles' which are required to be followed to ensure an unqualified audit. However, if the above analysis and the science is correct, then the way in which conventional accounting measures performance and reports results is seriously flawed, and the reaction of market participants to these results, is reprehensible.

Standing to critique conventional (or mainstream) accounting (Chua, 1986), social accounting seeks to examine the non-financial activities of companies and views accountability as an issue that goes beyond the rights of shareholders to receive a financial account of a company's activities. Social accounting takes a societal view of

[29] http://www.wbcsd.org

accountability and seeks, through an examination of the non-financial aspects of a company's performance, to hold the company accountable to a much wider range of stakeholders for its actions. As such it acts as a critique of mainstream accounting, and accounting research, and it is through this lens that this thesis will examine the interaction between company activity and financial markets.

1.6 Methodological approach

Whilst this study engages in both a quantitative and a qualitative study, the primary methodological approach taken in developing the thesis is qualitative, interpretive and hermeneutic. The first study, a statistical examination seeking associations between social variables and market variables, whilst not a replication study in the true sense, is similar to some previous studies using US data, but extends that area of research by using a database comprising 10 years data on the top 100 companies taken from *The Times Top 1000 Companies*, between 1988 and 1997. This allows longitudinal as well as cross-sectional analysis of data, and in this case, in a UK context.

The process of collecting the data for this examination, the statistical tests employed, and the results of the study created for me a minor crisis in the progress of the thesis. I was undergoing a re-examination of my personal ontological and epistemological positioning at this time, and re-examining my understanding of accounting research compared to research in the wider field of social science.

This created a need in me to locate the research in the context of the world in which we find ourselves at present, faced with grave challenges to the accepted way of life, as enjoyed in western developed countries. These challenges relate to a threat to our biosphere, created by the process of industrialisation which, as well as causing the conditions of global warming and climate change, have also served to deliver a constant improvement in western living standards from which all who live in the west have benefited.

In considering these issues I became persuaded by the literature from the wider realm of social sciences that the research questions posed in the thesis would be more completely addressed by undertaking a qualitative study aimed at interpreting the data collected and 'making sense' of what was being presented.

This interpretive stance, informed by the development of hermeneutics in the social sciences is outlined more fully in Chapter 7.

1.7 Overview of the thesis

Drawing from the contextual interplay among accounting, capital markets and sustainable development, this thesis asks how markets value company social and environmental activity. Through a series of examinations of FTSE 100 companies with respect to how they report their social and environmental activities, whether these activities can be associated with share returns, and how senior executives view their responsibilities with respect to a sustainable development agenda, the thesis explores the associations between social disclosure, social performance and financial performance.

In order to do this, the thesis will develop as follows: Chapter 2 explores the notion of social accounting and explains the contribution this thesis makes to the social accounting project, by focusing on the previous failure of social accounting to address Capital Markets.

Chapter 3 goes on to discusses the tension between sustainable development and the capital market, analysing the problems within the reward and bonus structure of markets and issues arising from the distance between investors and the numbers and market participants in general and the activities of the companies in which investments are made. The role of social disclosure is examined and the link between social disclosure and financial performance is introduced.

Chapter 4 develops this theme and reviews the previous literature which examines the links among social disclosure, social performance and financial performance, and suggests that despite the huge amount of research activity in the area, the results are somewhat confusing, and contradictory. The level of research suggests that the search for an association between social disclosure and financial performance has merit, and sets up the rationale for the first empirical study which examines UK data in both a longitudinal and cross-sectional way.

In Chapter 5, the research design for the first study is outlined and discussed, and is followed in Chapter 6 by the statistical analysis and results there from. Whilst they follow the pattern of previous studies there are some interesting observations.

However, having completed this study, and having considered the evidence of the longitudinal dataset which demonstrated a dramatic increase in social disclosure over the period of the study, yet revealed no financial association with this (non-profit making) behaviour, further investigations seemed more than warranted.

Chapter 7 discusses the limitations of the statistical analysis, and the rationale for a more interpretive approach. In this chapter I explain some of the personal ontological problems I had to confront and how this led to the design of the second study. The Chapter traces the evolution of the hermeneutic method as a means of enquiry in the social sciences and explains the rationale for adopting a hermeneutic approach. It examines the value to the study that a series of semi-structured interviews might bring to the investigation. The themes to be explored within this process are outlined.

Chapter 8 examines the notion of fieldwork in social science research, and how the data was collected. It looks at how the research design is implemented and how the data was to be sourced, collected and analysed.

Chapter 9 deals with the interviews. It explains the rationale for conducting the study using both company executives, and executives with trading experience in the markets. It looks at the profiles of the interviewees, their companies and at the process of data collection.

Chapter 10 looks at the significance and the implications of the study, and mentions some of the limitations of the approach taken. The project is reflected upon, and issues relating to the research design, the interviewees, the themes explored, and the methods are all subjected to critique.

Chapter 11 draws conclusions from the study, and discusses the contribution the research has made in terms of methodology, to Social Accounting agenda, and to our understanding of the interaction between companies and markets.

1.8 Chapter Summary

This chapter sets the key research question: Do markets value company social and environmental activity?

It explains the background context to this question, the concept of sustainable development, and explores the added urgency associated with this concept when linked to recent scientific research into the connection between industrial activity and climate change. The role of accounting and capital markets is introduced in this context, and the notion is raised that firstly, traditional measures of performance are inadequate to capture the extent of company activity which fully reflects the impact on society and the environment, and secondly, the signals to which the market reacts rewards behaviour exactly opposite that which is required to encourage sustainable development.

Chapter 2

What is Social Accounting?

'Every business action, if traced with sufficient care, will be found to have both economic and social consequences. Whether a company wishes it or not, in the course of being a producer of goods and services, it generates a wide variety of social impacts. Most of these impacts are the unavoidable by-products of the processes of manufacture and distribution…some, but proportionately few result from business participation in civic and charitable activities' (AICPA, 1977).

2.1 Introduction

In the first chapter the thesis was outlined and the critical importance of sustainable development was explored both from an historical context and in relation to the recent scientific findings which now link, beyond doubt, industrial activity with climate change. It was posited that this created new challenges for business, and a pressing need for corporations to recognise the changing commercial landscape and adapt accordingly. It was also suggested that the overriding influence of capital markets on corporate action acted as a potential obstacle to companies adopting a strategy for sustainable development because of the potential such strategies have of sending the 'wrong' signal to the markets.

The main aim of this chapter is to examine social accounting in greater detail to consider the possibilities that it might serve in mediating in this process, by offering a medium of discourse through which companies and market participants might revise views on what constitutes 'good' and 'bad' signals, and a mechanism through which company management and external stakeholders might fruitfully engage. To explore this further, the development of social accounting will be studied in the context of changing social and political landscapes, examining a social and environmental timeline which heralded changing reporting practices and research activity. Having looked at the emergence and development of social accounting, theories underpinning the practices and processes of social disclosure are reviewed with a particular emphasis given to how social accounting relates to capital market activity. The contribution that this thesis will make to the social accounting project is then considered in the context of both the positivist and the interpretive studies later in this thesis, and leads to a discussion on potential new accountings, and new connections which might emerge.

2.2 What is Social Accounting?

Financial reporting is traditionally understood as the reporting of the results of a company's past activities to external stakeholders. The requirement for such reports is now part of company law in most countries but, as in the UK and US, the requirements almost invariably cover only the financial activities and commonly call for the profit and loss account and balance sheet to be reported to the members of the company. These basic reports are often augmented by the various additional requirements of what are now becoming the International Accounting Standards. However, with the exception of a few

European countries, all these requirements, either by law or quasi-law, relate to financial aspects of performance. Reporting of non-financial aspects of a company's performance is largely voluntary[30]. It is the nature of this form of reporting that has attracted the interest of a growing number of accounting researchers from the genesis of social accounting that can be traced back over 30 years. It has also revealed that the practice is far from a recent phenomenon. Before looking back at the emergence of social reporting, it might be useful to be clear about what it means. One of the earliest definitions of corporate social reporting, which still stands up today, states that it is:

> '…the process of communicating the social and environmental effects of the organisations' economic actions to particular interest groups within society, and society at large. As such, it involves extending the accountability of organisations (particularly companies) beyond the traditional role of providing a financial account to the owners of capital, in particular, shareholders. Such an extension is predicated upon the assumption that companies do have wider responsibilities than to simply make money for their shareholders' (Gray et al., 1987)[31].

Immediately, this definition challenges the 'taken for granted' objectives of financial reporting and, therefore, may be regarded as critical of mainstream accounting practice. Indeed, much of the discussion and debate within social accounting tends to challenge traditional accounting and reporting conventions, and that challenge begins to emerge when we consider further the above definition.

What is obvious from the statement, and unavoidable in any subsequent discussion, is the debate about what is meant by 'accountability'. Indeed, it might be useful to consider, at this stage, how 'accountability' can be interpreted differently by different constituents and how, within its meaning, there is an implicit relationship between the person or body requiring and an account and the one giving the account, of unequal power. This unequal power relationship is evident in the use of phrases like, 'being called to account', or being

[30] Changing Corporate Governance guidelines have increased the amount of recommended disclosure, categorized as social disclosure, relating to the remuneration of directors, following the Cadbury and Greenbury reports in the mid 1990s.
[31] See, for an more recent discussion, Gray et al. (1996).

asked to ‘account for one’s actions’. Equally, in this context, it rarely has the connotation of a financial account. Yet, in a corporate context ‘accounts’ invariably have this financial emphasis, and the power relationship here lies in the requirement laid down in law and in custom for the directors of a company to supply accounts to the owners, and is the foundation of agency theory, which is fundamental to modern theories of the firm[32]. The same legal obligation to be called to account for responsibilities which go beyond the financial, however, is largely absent from the corporate sphere, and any such reporting is undertaken as a voluntary act, and is the focus of much social accounting research. Social accounting theorists both challenge the primacy of the shareholder group, and recognize an explicit obligation on companies to be accountable to wider society.

In terms of social accounting, however, this focus on the shareholder is not of such over-arching importance. Accountability in this sense means the accountability the companies have to society, in terms of how they interact with the environment, how they treat their employees, the impact their products have in terms of distribution and use, the consumption of resources, their involvement with foreign or offshore partners, the way they approach corporate governance, etc.

2.2.1 Social Accounting and General Systems Theory

Social reporting, at a theoretical level, is concerned with how commercial activity links into other social systems, and presents an alternative ontological approach to how one views the role of corporations. Indeed, understanding ‘systems thinking’ is important in understanding the meta-theoretical assumptions of social and environmental accounting. In short, as explained by Gray et al. (1996, p. 13), it is an approach ‘designed to reverse the tendency in scientific thought towards reductionist reasoning’. Systems theory has its origins in the natural sciences and is explained in the following terms:

- an attempt to study a part without understanding the whole from which the part comes (reductionism) was bound to lead to misunderstandings. The part can only be understood in its context;

[32] Agency theory is based on the notion that companies operate by virtue of a ‘nexus of contracts’, a coming together of the contractual requirements of manufacture, supply and employment. It articulates some of the conflicts of interest that must exist between an agent and owner if agents are pre-disposed to act in a self-interested manner, and draws principally from the work of Jensen and Meckling (1976), Fama (1980), Fama and Jensen (1983).

- understanding tends to be directed by and limited to one's own discipline. Natural phenomena are complex and cannot be successfully studied by artificially bounded modes of thought (Gray et al., 1996, p. 13).

The essence of systems thinking therefore demands that we think about all our commercial (and leisure) activities in the context of how they affect other life systems, with what Birkin (2000), calls an 'ontology of interconnected events', rather than the managerialist approach of thinking of issues as discrete.

2.2.2 The Emergence of Corporate Social Reporting

Research in the 1980s demonstrates that some US and Australian companies were reporting on social issues before the first World War (see, for example, Hogner, 1982, Lewis et al., 1984, Guthrie and Parker, 1989). Likewise, in a European and UK context a similar pattern was observed in the early days of Shell (Unerman, 2003) . These studies suggest that company managers have always been mindful to consider non-financial issues that are relevant at a particular historical context. In the case of the disclosures by US Steel, it is suggested that disclosures were motivated by the need to respond to the perceived societal pressures of the period (Hogner, 1982).

However it was, perhaps, as societal awareness of environmental issues grew in the 1960s, and concerns over corporate behaviour were prompted by various company collapses and scandals in the 1970s, that companies responded by including more non-financial information in their Annual Reports. It was also in the 1970s that in different countries, new laws required companies to report on aspects of performance relating to, inter alia, employment practices, pollution expenditure and the like[33].

There was also interest in the subject by the UK accounting profession, and in 1975 the publication of The Corporate Report represented a radical re-think of the role of reporting to external stakeholders[34]. It emphasised how the traditional role of the annual report could be made more relevant by the inclusion of social and environmental information. In the US the AICPA entered the debate, offering guidance on the measurement of social

[33] For further discussion see Gray (2002b).
[34] ASSC (1975)

performance in their 1977 publication (AICPA, 1977), and the atmosphere was one of examining the role of reporting, in general, and the purpose of reports, in particular.

However, as interesting as its emergence in the 1970s might have been, so was the decline in social reporting in the 1980s, and its subsequent re-emergence in the 1990s. The decline is largely attributed to the political shifts in the US and UK which came with the respective elections of Reagan and Thatcher, and the renewed focus on market economics. The Corporate Report largely failed to bring about any major changes and disappeared from the accounting agenda until memories of its recommendations were stirred in the 1990s with the initiatives pioneered by such organisations as the Institute of Social and Ethical Accountability, The Council on Economic Priorities, and the World Business Council for Sustainable Development[35].

2.2.3 The Upsurge in Social Reporting Since the Early 1990s.

Despite the varying pattern of corporate reporting of social and environmental issues, a very clear upward trend in social reporting began to emerge in the 1990s and this can be easily observed from the tri-annual surveys conducted by KPMG. Apart from relatively minor changes in corporate governance recommendations, a number of factors began to influence change within companies. These included action at a number of levels, from initiatives within professions and industries, to UN and EU initiatives, all encouraging greater detail in the reporting of social and environmental issues.

For example, the UNEP/SustainAbility ‘Engaging Stakeholders’ programme was launched in 1994. It served to raise awareness among companies initially of environmental reporting, and it continues to stress ‘the business case’ for wider reporting clearly encouraging participation by publicizing widely the results of the survey and the benefits of participation. The series of surveys continue to the present time and in the latest report at the time of writing, Standard & Poors join the research team, and the report has taken on even more of a market orientation (UNEP/SustainAbility/Standard&Poors, 2006). The European Union Eco-Management and Audit Scheme also promoted the introduction and reporting of environmental

[35] For further discussion, see Deegan (2002)

management systems following the introduction of BS 7750 in 1992 and thereafter the ISO 14000 series.

At a national level, the UK government's DEFRA/DTI Environmental Reporting Guidelines were published in 2001, and France has followed Denmark, Norway, Sweden and Holland in introducing mandatory reporting requirements, although the focus here still has a financial emphasis. At a business to business level, The International Chamber of Commerce (ICC) published its Business Charter for Sustainable Development in 1991 with a 16 point guide to environmental reporting. In 1995 the World Business Council for Sustainable Development (WBCSD) was established through a merger of the Business Council for Sustainable Development and the World Industry Council for the Environment, the two organizations that responded on behalf of business to the challenges arising from the Rio Summit in 1992. The WBCSD maintains an influential voice for business and boasts membership of many, if not most, major corporations worldwide[36].

Around the same time various industries began to look at how environmental issues affect the perceptions of activities within their sectors. An example of this is the initiative by the European Chemical Industry Council (CEFIC). Founded in 1972 it has, over the years, expanded and developed its approaches to various aspects of concern within the industry. It now is closely allied to the International Council of Chemical Associations, and in 2006 the ICCA launched its Responsible Care Global Charter, a development of CEFIC's Responsible Care Programme's reporting guidelines.

At the level of the professions, the co-ordinating organization for the European accounting professions, the Fédération des Experts Compatibles Européens (FEE) has been involved in developing reporting guidelines and making representation to the European Parliament on connected issues. In the UK the initiative taken by the ACCA in 1991 in establishing the Environmental Reporting Awards has done much to encourage and improve social reporting over the years[37].

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[36] It also has an extensive website covering issues of climate change, international development, eco-systems and the business role. There is a section on projects in progress, and there are a large number of case studies for reference. See www.wbcsd.org

[37] The ACCA not only runs award schemes in the UK, but in several other countries around the world.

Each of these initiativesor a combination of more than one, served to increase the incidence and volume of environmental reporting. In the early stages of this development the reports bore little resemblance to the best reports we see today. In general, reporting on environmental issues comprised a section in the Annual Report, and was largely qualitative in nature. Even when the first 'stand-alone' reports began to appear, they seemed to be 'rather crude exercises in public relations'[38].

Research interest grew in response to this observed increase in disclosure, not least because of the voluntary nature of the activity, which goes against the conventional theories of the firm which suggest that companies expend resources in expectation of financial returns. Here is a voluntary activity, consuming resources, with a high degree of uncertainty about the financial return. Indeed a huge amount of research time has been spent on trying to correlate social disclosure (as a proxy for social performance) with company financial performance[39].

Researchers began to confirm characteristics that probably explained why certain companies were predisposed to disclose more than others. A consensus began to emerge that, principally, large companies disclose more than small companies[40], and companies from environmentally sensitive industries disclose more that those from other sectors. This is, probably, unsurprising. Firstly, large companies have greater resources and probably have a more sophisticated reporting function within the structure of the company. Much of the information would have been collated for internal use, and, therefore, is relatively simple to roll out for external consumption. Equally, it is probably intuitive that companies in the more environmentally sensitive industries tend to report more on their environmental impact. Companies from the extractive and oil and gas sectors have responded to adverse comment by increasing, over the years, emphasis within their annual reports on their environmental management practices. Thirdly, in the UK, the privatized utilities have maintained a high level of social and environmental coverage of their activities, which was part of the remit on privatization.

[38] See Owen (2003).
[39] For a detailed summary see Margolis & Walsh (2001)
[40] See Trotman and Bradley (1981), Belkaoui and Karpik (1989), Gray et al (2001)

2.2.4 Emerging Trends

Two other trends emerged in the 1990s and, to some extent still continue today. Firstly, there was the separation of the 'environmental' from the 'social'. Whereas the reports in the 1970s had, in many ways, a shared focus, the trend in the 90s was for the two to be separated and a greater emphasis placed on the environmental aspects of company performance. Secondly, criticism was, and still is, levelled at companies for failing to embed social and environmental policies into the strategy and 'real' purpose of the business. Social and environmental policies are often seen as policies 'bolted-on' to the core activities of the business, as if to mollify particular stakeholder groups.

We can conjecture over the reasons for both trends. In the case of the environmental focus, it is worth remembering that there had been a spate of very significant environmental disasters in the mid and late 1980s including, for example, Bhopal in 1984, Chernobyl in 1986, Piper Alpha in 1988, and the Exxon Valdiz disaster in 1989. For obvious reasons, media coverage of these events was heavy and prolonged, and the events themselves led to many changes in the way companies operated and reported. Indeed, each of these events had a lasting impact within their respective industries, still felt today. Therefore, it is probably unsurprising that companies opted for more of an environmental focus in their activities and reports. In many ways, if that is correct, it also explains why the strategy may be easily identified as an 'add-on'; probably because, at least initially, that is what it was. It would have been a reaction, most likely by companies within the affected industry sectors, to how they perceived they should act. However, the criticism remains today, and is still an issue for some critics.

2.2.5 Research into Social Reporting

Although there is evidence of companies reporting non-financial aspects of their businesses going back over a hundred years, a body of research activity within the field really began to emerge only in the 1970s (Mathews, 1996) [41]. Between 1970 and 1980, the research, according to Mathews (1996), mainly consisted of empirical (statistical) studies which, while focusing on some aspects of social and environmental information, still had

[41] See Mathews (1996) for a detailed discusses on the development of social accounting research in different time periods.

a clear rationale aimed at discovering the usefulness of this information to investors (see, for example, Bowman (1973), Bowman & Haire (1976), and Belkaoui (1976)). However, some discursive work began to appear towards the end of the decade (for example, Estes (1975), Estes (1976), Ramanathan (1976)). These works widened the debate to include more philosophical issues and the phrase ‘social responsibility’ appeared in many studies (for example, Jacoby (1973), Browne and Haas (1974), Feldberg (1974)).

Research gained momentum from the mid 1980s, when a number of authors, principally in the UK and Australia began to explore the social dimensions of corporate activity. Influential journals, sympathetic to this subject matter were also founded in this period. *The Journal of Accounting and Public Policy* (1982), *Accounting, Auditing and Accountability Journal* (1988) and *Critical Perspectives on Accounting* (1990) joined *Accounting, Organizations and Society* (1975) to provide a wide forum through which to engage academics and broaden the terms of the debate. Scholars from related disciplines became involved and the subject was given extra impetus with the debates in the first issue of *Advances in Public Interest Accounting* between Parker (1986) and Puxty (1986), and the 1987 publication of *Corporate Social Reporting: Accounting and Accountability* (Gray et al., 1987).

These works presaged the increase in social reporting of the early 1990s, and heralded a social and environmental accounting project that has continued, and grown in strength, scope, and reach, ever since. Indeed, from modest beginnings, with only a handful of researchers worldwide, social and environmental accounting research is conducted by hundreds of researchers in many countries and features as tracks in many international accounting conferences, as well as having a number of dedicated conferences each year.

Calls to theorise the reasons behind the increasing incidence of social reporting came as a plethora of statistical studies in the late 1970s and 1980s served to offer little insight on the phenomena. It appeared that the research was aimed at traditional accounting audience of ‘decision makers’, yet such evidence that there is from research studies which look at the value investors place on such information, is no more than suggestive of ‘possible’ relevance to investment decisions (Bowman, 1973, Chenall and Juchau, 1977, Ingram, 1978, Goodwin et al., 1996, Chan and Milne, 1999). Indeed, despite the huge amount of research in the 1970s and early 1980s into the link between social performance and financial performance, no clear theories emerged to explain the increasing incidence of social reporting. It prompted one author to suggest that the research was based on 'data in search of a theory' (Ullmann, 1985) [42].

However, researchers responded to Ullmann's call for new theories to be explored to explain the phenomena, and a number of studies followed. Roberts (1992) discussed stakeholder theory in an empirical context and, in 1995, Gray et al., prompted also by evidence in increasing volumes of social disclosure, reviewed theories of disclosure that might explain the phenomena. Traditional theories of disclosure aimed at informing market participants were largely discounted, and alternative theories of political economy were considered. These theories are discussed in the next section.

2.3 Theoretical Links between Social Disclosure and Social Performance

At the beginning of this research agenda in the 1970s an implicit link between social disclosure and social performance was drawn on the basis that if a company reported social activity then it was undertaking such activity. Some studies looked specifically at the link between social disclosure and social performance and found mainly positive correlations. Where correlation was difficult to establish there were normally reasons proffered why this might be the case. Further, many studies in the 1970s and 1980s studied the link between social disclosure and financial performance, using the disclosure as a proxy for performance (see Appendix A).

In one particular area, however, social disclosure plays a particular role. When considering a company's reputation, the common link between the various indices of reputation is some form of evaluation of performance by a group of individuals who rely, to a greater or lesser extent, on company disclosures.

2.3.1. The Role of Social Disclosure in Building Reputation

Company reputation, in terms of social responsibility, was first identified as an issue of some importance by Moskowitz (1972) who selected a group of 14 companies he felt reflected high standards of social responsibility, based on a set of criteria of his own

[42] A full review of this literature can be found in Chapter 4.

making, derived from monitoring the social policies disclosed by companies over a 4 year time-span. In listing the attributes which he felt contributed to a good reputation, many, such as minority employment policies, community involvement, environmental management policies, etc., are now included in more recent, more sophisticated indices. However, despite the absence of any systematic approach to selecting the criteria and ranking the companies, his selection has been used in a number of studies testing the relationship between social disclosure and social performance (Bowman and Haire, 1976, Sturdivant and Ginter, 1977, Preston, 1978) and the sample has also been subjected to more rigorous tests (Vance, 1975, Alexander and Buchholz, 1978, Spicer, 1978a), with no definitive conclusion being drawn by the researchers. This led researchers to seek alternative measures of reputation for use in empirical studies.

2.3.2. Measures of Reputation

In the autumn of 1982, Fortune magazine conducted the first of what was to become an annual survey of company reputation, and published the summary results the following, and each subsequent, January[43]. The survey covers the largest firms in 20 - 25 industry groups (varying in number each year). The survey is sent to over 8000 members of the business community who are asked to rank the ten largest companies in their industry on eight attributes: financial soundness, long-term investment value, use of corporate assets, quality of management, innovativeness, quality of products and services, use of corporate talent, and community and environmental responsibility. Ratings are on a scale of 0 (poor) to 10 (excellent), and the response rate has averaged almost 50 per cent for each year of the survey (McGuire et al., 1988).

This survey became a popular choice by researchers in the decade between the late 1980s to late 1990s, looking for a more comprehensive measure of corporate reputation (social performance). It was chosen on the basis that it provides comparable data over a wide time-scale, it is compiled using a large number of respondents, and that the respondents are only asked to rate companies from within their own industry implying that the respondents have direct access to industry specific disclosures, especially regarding issues

[43] See http://money.cnn.com/magazines/fortune/mostadmired/2009/index.html

of social responsibility (McGuire et al., 1988, Cottrill, 1990, Herremans et al., 1993, Hammond and Slocum, 1996, Preston and O'Bannon, 1997)

However, an examination of the eight attributes reveals sufficient to cause disquiet if social responsibility is the object of exercise, since it clearly includes in its assessment of reputation measures of financial performance as well as social performance. For this reason more recent studies have tended to choose a more specific assessment of purely social performance appraisal undertaken by Kinder, Lydenberg, Domini & Co Ltd (KLD). Each company in this survey is assessed on seven attributes of social performance involving community relations, employee relations, environment, product, treatment of women and minorities, military contracts, and nuclear power [44] (Kinder et al., 1990). A five-step scale from ‘major - strength’ to ‘major-weakness’ is used, which can be easily converted to a numerical value rendering it useful for empirical analysis (Graves and Waddock, 1994). It has since become the most prevalent measure used in US based studies (see, for example, Graves and Waddock, 1994, Waddock and Graves, 1997a, 1997b, Johnson and Greening, 1999, Mahoney and Roberts, 2002).

2.3.3 Competing Research Agendas

Thus far, in examining the relationships among social disclosure, social performance, economic performance, and reputation, within the management and accounting literature, the language used has attempted to reflect the moral undertones of ethical business activity, using the approach of Social and Environmental Accounting where there are few ‘taken for granted’ assumptions, and any assertions are sought to be justified. This is highlighted to draw attention to a recurring tension in this thesis surrounding the language used in the different strands of research, between social and environmental research and capital market research, both of which are central to the research design of this study.

2.4 Theories of Social Disclosure

If theories of conventional accounting disclosures revolve around the need of decision makers for information on which to base their choices, then they seem unlikely to explain this, largely voluntary, activity (Gray et al., 1995b). Although Toms (2002) does suggest that environmental disclosure might serve as a ‘conduit for signalling facts about

[44]When the survey began, an eighth attribute, South Africa, was included.

environmental management' (p.276), and this might explain why a some companies might adopt such a strategy, theories which explain the increase in social disclosures, which include more than just environmental management issues, and the interest in social reporting generally, are likely to rest elsewhere. In their 1995 paper, Gray et al. review theories that might explain the phenomena, and argue that it is more likely that social and political theory studies will shed light on the practice. They go on to discuss in detail three sets of theories: theories of the stakeholder, theories of legitimacy, and theories of political economy.

2.4.1 Stakeholder Theory

Stakeholder theory is examined within the literature from two perspectives: the managerialist perspective, which is the form most usually discussed and adopted by the corporate sector, and also the societal point perspective. The managerialist notion of stakeholder theory is based on the idea that for companies to continue their activities without hindrance, they need the continuing support of all stakeholder groups, and follows the arguments advanced by Freeman (1984). From this viewpoint social disclosure is seen as an issue of management practice; a medium of communication between the company and its various stakeholders. Here, management can identify these disparate groups and undertake strategies to manage them, discretely, if necessary to ensure as little disruption is caused as possible to the corporate plan. Freeman actively supports the instrumental notion that the greater the power of any stakeholder group to jeopardize the firm's survival, the greater the firm's focus ought to be. He talks in the language of managers using jargon like 'win-win' situations, and suggests that the only time to make concessions to stakeholder groups is if the survival of the firm depends on it (p.149). Indeed, it is only at the end of his book that Freeman suggests that shareholders might, at some point, be supplanted by stakeholders (p.249). Even putting the book in the context of the period in which was written, during which time western, and particularly US companies, were feeling threatened by the strength of Japanese competitors, this book was predominantly aimed at managers of companies in a troubled economy. As such, it might be thought of as ironic that, in today's world, stakeholder engagement is often suggested as a means or [of?] reducing the power of corporations.

Even so, even managerialist stakeholder theory is not without detractors and critics (see, for example, Sternberg, 1996, 1997, 2000, Jensen, 2001). These authors argue that companies, acting in pursuit of maximum profit, serve all stakeholders best, as this is the way to bring greatest benefit to the greatest number. In a related vein, a more theoretical literature has emerged suggesting that there is an economic efficiency argument for adopting a stakeholder model of the firm, like that suggested by Donaldson and Preston (1995). In their paper looking at the privatisation of the UK water industry, Ogden and Watson (1999) examine the 'incomplete contracting' hypotheses drawn from the corporate governance literature, where it is suggested that, in the interest of economic efficiency managers are sometimes required to consider the interests of multiple stakeholders. The suggestion here is that, if these other stakeholders are not taken into consideration, and the shareholder is seen as the only focus of corporate activity, customers might choose to go elsewhere (see, for example, Garvey and Swan, 1994, Ezzamel and Watson, 1997). This suggests that senior management will select policies that find a balance among competing stakeholder interests (Ogden and Watson, 1999).

Whilst this may well be true, in many ways it is unsurprising and suggests that this strategy is yet more evidence of 'managerial capture', where this sort of approach is condemned for attempting to do no more than serve corporate managerial imperatives (Ball et al., 2000, Owen et al., 2000).

The other view of stakeholder theory is to make the stakeholder the focus, where companies are accountable to the stakeholder for their actions. This returns the debate to one on the nature of accountability, which was touched on above, and the rights of citizens for information surrounding issues of concern to the citizen, rather than information which companies choose to release for their own ends.

2.4.2. Legitimacy Theory

Other reasons for companies choosing to disclose information relate to issues of legitimacy. In the same way that it was suggested that companies require the support of stakeholders to survive, legitimacy theory implies that a corporation's activities must be legitimate in the eyes of society to allow it to continue; in the doomsday scenario, if the company loses its legitimacy, then it will cease to exist. This notion may well have seemed somewhat theoretical, in itself, prior to the Enron scandal, but applied to Arthur Andersen, it can be seen to have some basis. It is not difficult to argue that, as the accounting irregularities became apparent, so the business world turned its back on

Andersen, and its legitimacy was compromised to such an extent that it could not continue, and folded in a spectacularly short time[45]

This theory suggests that company disclosures may be a reaction to the perception that companies have of how they are viewed by different stakeholder groups within society. The theory itself is based on the notion that companies have an implicit ‘approval’ from society to allow them to operate, in return for performing actions beneficial to society. The position this theory takes in relation to company disclosures is outlined by Lindblom (1993), who suggests that companies might adopt one of four strategies in an effort to keep society informed and sympathetic to the companies aims. She outlines these approaches in what might be seen as strategies of escalating manipulative persuasion, i.e. that company activity might not alter, but that the message it wishes to convey is designed to fulfil one or more of these strategies. She suggests that, while the information disclosed may be the same, the purpose behind the disclosure may have four distinctly different purposes.

The first, to educate and inform, may be seen as somewhat innocuous, in that the constituency being addressed, what Lindblom refers to as ‘the relevant public’, is being kept appraised of the company activity, in a way designed not only to increase awareness, but to improve the level of understanding of the purpose behind that various activities that might be subject of the report. Secondly, she suggests that disclosure might be used as a strategy of changing perceptions. This strategy is subtly different from ‘educating and informing’, in that it is the intention that is different, here being to influence the reader of the report in such a way that they no longer perceive behaviour to be one thing, but another. One step up this scale is where disclosures might be used to explicitly manipulate perceptions, to alter in the mind of the reader the notions the reader might have about the subject of the disclosure. Lastly, a strategy to change the external expectation of its performance represents the most overtly deliberate strategy that a company might adopt.

Of course, the idea that companies can successfully achieve their ends by adopting these strategies is a moot point. It is predicated on the notion that readers would, gullibly,

[45] At the time Seagrams, the Canadian drinks company, ran an advert for one of their whiskeys with the logo ‘Goes down faster than a Big Five accounting firm’.

accept the disclosures and be manipulated in the desired way without resistance, and that is clearly a contestable assumption. Indeed, those who have lived through the last ten years of government in the UK will be more than attuned to stories of 'spin' within the 'New-Labour' government machine, and aware of the motivation of corporate communication strategists. Yet, the likelihood remains that these strategies may be adopted either in response to specific incidents, or as ongoing policies of interaction with stakeholders (see, for example, Patten, 1992, Deegan and Rankin, 1996, Wilmshurst and Frost, 2000, Deegan and Rankin, 2002).

2.4.3 Political Economy Theories

Broadly speaking, political economy theories of accounting, within which stakeholder and legitimacy theories also lie, consist of theories which derive form[from?] the social, political and organisational context within which accounting operates. However, political economy theories have two strands. Firstly, those that are constructed through the utilitarian lens of J.S Mill and which tend to focus on the interaction of competing groups within society, which itself is viewed as pluralistic. This is regarded as the 'bourgeois' viewpoint, where the issues under examination are not regarded by Marxists as of significant importance where the important issues (for them) are largely ignored.

Fundamentally, this view ignores the very focus of the 'classical' Marxian analysis, which sees inherent conflict within society and which challenges the inbuilt structural inequalities of power and influence (Cooper and Sherer, 1984, Gray et al., 1996). These issues of structural inequality are also the focus of critical accounting researchers who see accounting as an essential part of the structure of capitalism which serves to maintain the unjust and structurally divisive status quo (Tinker, 1984, 1985, Hines, 1988a, Hines, 1991, Tinker, 1991).

Critical accounting researchers are interested in a different ideology surrounding the possibilities and responsibilities accounting has in a societal context, which Marxian and critical theorists believe go far beyond those which inhabit the domain of the mainstream researcher[46]. Indeed, insofar as the rudiments of ideology for Marx were founded firstly,

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[46] Indeed, the study of ideology itself, although it is a contested concept, has fundamental Marxist connotations, having origins in the social, political and intellectual upheavals of the Industrial Revolution (McLellan, 1995)
(footnote continued on next page)

on idealism (where it is contrasted with materialism), and secondly on the structural inequality of power and resources within society, so common ground is explored by critical researchers in accounting.

It should also be acknowledged that social and environmental accounting researchers stand accused by those on the critical left of being part of a project which is, itself, bourgeois (Puxty, 1986, Tinker et al., 1991), despite their own criticisms of mainstream accounting research.

2.5 Contribution to the Literature

The particular point of interest of *this* thesis is that, following on from a statistical study which examines the association between share returns and social disclosure in a longitudinal and cross-sectional study of UK data, company executives are interviewed to gain insight into their perceptions of the pressures and drivers for disclosure. Hence, the thesis straddles both the positivist and interpretive approaches to social reporting in order to bring new insights into relationships between social disclosure and capital markets.

2.5.1 To Positivist Investigation

As will become obvious in the literature review which follows in Chapter 4, the vast majority of previous statistical studies have followed a predictable pattern: while they use different data, techniques, and timeframes, and choose from a host of variables to measure both social and financial performance, the focus has invariably been on the investor. This is true from some of the earliest studies (e.g. Belkaoui, 1976), in which evidence of 'the ethical investor' was discussed, but only as an indicator to market participants of the phenomena, and a greater focus was placed on the potential 'negative effects of pollution abatement expenditure on earnings per share' (p.26), and the evidence of the 'efficient market hypothesis in its semi-strong form' (p.30). Many later studies also follow an overtly market based approach, which is evident by the rationale of the studies, and also in the choice of journal for publication (see, for example, Shane and Spicer, 1983, Blacconiere and Patten, 1994, Johnson and Greening, 1999, Christmann, 2000). Additionally there are a significant number of event studies, clearly aimed at examining market efficiency and identifying investor opportunities (Peltzman, 1981, Strachan et al., 1983).

Having made that point, it must be acknowledged that there are many researchers that have undertaken positivist approaches to the subject and carefully articulated the moral reasoning behind their studies (see, for example, Verschoor, 1998, Chan and Milne, 1999, Milne and Chan, 1999, Gray et al., 2001, Al-Tuwaijiri et al., 2004).

What distinguishes the first study in this thesis is the specific focus on the relationship between stock market behaviour and social and environmental disclosure, in a UK context. It examines the association between share returns and corporate social and environmental disclosures using, not only cross-sectional data, but longitudinal data over 10 years.

2.5.2 Fieldwork Literature

In accounting research, capital market studies tend to be the preserve of positivist investigations. There are very few studies focusing on the behaviour of market participants. The relationship between information in the form of social disclosures and changes in market returns have not been examined by way of engagement with market participants. 'Behavioural Finance', which one might expect to encroach into this area, remains firmly in the realm of efficient markets. What work there is, with much going back to the 1970s, seeks to discover the psychological factors that prompt particular investment patterns (see, for example, Slovic, 1972, Tversky and Kahneman, 1974, Kahneman and Tversky, 1979). The definition by Lintner (1998), that behavioural finance is 'the study of how humans interpret and act on information to make informed investment decisions', offers the suggestion that investigations might uncover new insights into the motivation of the investing community, but any moral dimension within the decision making process seems to be a totally absent strand in this research.

That is not to say that there has been no fieldwork which tries to examine issues of responsible business conduct. Most, however, are questionnaire surveys, with their attendant problems, and the results of which still require interpretation. This does not allow for detailed examination of responses, or the opportunity to follow up responses with additional questions to raise understanding[47]. This literature is reviewed more fully in Chapter 8, below.

However, in one of the few interview-based investigations covering a similar area, Friedman and Miles (2001) interviewed a number of market participants acting under the notion that *The Turnbull Report* (1999) would create the need for both an increased volume, and better quality, of social information to allow company directors to comply with the (then) new *Combined Code on Corporate Governance*, which had been published in 1998[48], and also in anticipation of Company Law reforms which would require new information to be disclosed in the much vaunted *Operating and Financial Review* (OFR). It was also announced that, following the provisions recommended in the Myners Report[49], the training given to pension fund trustees should include social and environmental issues, if only from the point of view of identifying risk.

With all these developments as a background, the Friedman and Miles (2001) study tended to focus on market participant perceptions on the future developments in social reporting. Their conclusions, that increasing interest within the City generally, and the increasing influence of socially responsible\in contrast, investment funds, would bring about better quality of social information, may have been derailed by the widespread disregard among pension funds to implement for the Myners recommendations, and the scrapping of the OFR.

2.6 New Accountings/New Connections

In contrast, the investigation in this thesis seeks to gain a greater understanding of how the communication mechanism between companies and markets operates with regard to social and environmental information by examining the perceptions of both senior managers of listed companies and market participants.

[47] For a brief review of the literature, mainly from the Doctoral theses of US based researchers, see Filios (1986)

[48] It has since been updated (Combined Code, 2003).
[49] The initial review was published and comment invited, in 2001. The final version was published in 2004 (Myners, 2004).

Firstly, senior company executives are interviewed to uncover (i) their views on what has driven the increase in social disclosure which has been observed over the last decade, (ii) whether or not financial markets are ever an intended audience for social and environmental information, and (iii) whether they perceive that markets are interested in this form of information. Secondly, market participants are interviewed from the other side, as it were, to see what information they want from companies to help them make decisions, and whether they are picking up on the issues managers think they are interested in.

2.7 Social Accounting and Capital Markets

The relevance of the lines of communication between companies and, in particular, financial intermediaries can be demonstrated by looking at the following table of movements of share ownership between 1963 and 2004.

Table 2.1: Summary of Share Ownership in the UK 1963 – 2004.

Category of Investor	1963 %	2004 %
Rest of the World	7.0	32.6
Insurance Companies	10.0	17.2
Pension Funds	6.4	15.7
Individuals	54.0	14.1
Unit Trusts	1.3	1.9
Investment Trusts	0.0	3.3
Financial Institutions	11.3	10.7
Charities	2.1	1.1
Non-Financial Institutions	5.1	0.6
Public Sector	1.5	0.1
Banks	1.3	2.7

Source: The Office for National Statistics

The massive increase in foreign ownership, and ownership by pension funds and insurance companies, is matched by an equally dramatic fall in individual ownership. Indeed with only some 14% of shares in the hands of individuals, the role analysts and institutional participants play in the interpreting of signals to the markets becomes clear. Traditional financial reporting plays a major role in this process, as does the informal meetings between analysts and company executives (see, for example, Holland and Doran, 1998, Holland, 2000, Holland, 2001), but less is understood about the communication of non financial data. Friedman and Miles (2001) found great anticipation amongst market participants that changes would come in the wake of the expected changes to corporate governance and pension fund management. That these changes have either been abandoned or ignored has led to the perpetuation of the status quo, and therefore perhaps a greater imperative for social accounting to provide information for markets to work with, and be socialised by.

The study undertaken in this thesis is designed to explore these avenues and shed light on the ways that new accountings and new connections can provide avenues of communication to market participants in ways that might alter investment behaviour on receipt of new social and environmental information.

2.8 Chapter Summary

In this chapter social accounting was examined to trace the development of the discipline and the motivating factors behind it. The link with General Systems Theory was outlined and theories of social disclosure were discussed. The position of the studies undertaken in this thesis was contrasted with existing research and it was suggested that the studies in this thesis will make a significant contribution both to the positivist literature on the subject, and to the fieldwork literature. Further detail of the specific contribution will be outlined in the relevant chapters of the thesis.

In the next chapter the relationship between sustainable development and capital markets will be examined to extend the reach of social accounting further, and provide insights to the complex tensions which exist between the two.

Chapter 3

Links between Sustainable Development and the Capital Market

Over the past 50 years, humans have changed ecosystems more rapidly and extensively than in any comparable period of time in human history, largely to meet rapidly growing demands for food, fresh water, timber, fiber, and fuel. This has resulted in a substantial and largely irreversible loss in the diversity of life on Earth.

The changes that have been made to ecosystems have contributed to substantial net gains in human well-being and economic development, but these gains have been achieved at growing costs in the form of the degradation of many ecosystem services, increased risks of nonlinear changes, and the exacerbation of poverty for some groups of people. These problems, unless addressed, will substantially diminish the benefits that future generations obtain from ecosystems.

The degradation of ecosystem services could grow significantly worse during the first half of this century and is a barrier to achieving the Millennium Development Goals. (Millennium Ecosystem Assessment, 2005)

3.1 Introduction

In this Chapter, the specific role that Capitals Markets play in the movement towards sustainable development is examined. They can be seen either as an obstacle to, or an instrument for sustainable development, depending on the paradigm from which they are viewed. The context of the chapter will be set with a discussion surrounding corporate initiatives to engage with sustainability agendas, and the general scepticism with which they are met by NGO's, academics, and political commentators. This will be followed by a brief exploration of capitalism, in a broad sense, and the critical role that capital markets play in capitalist systems worldwide, and in this discussion the sociology of markets will be introduced. The principal components of sustainability, population and consumption, are then examined. Following this, the role, and failings, of accounting are analysed to try and discover if it might be possible to develop alternative ways to 'educate' market participants in terms of the focus of their investment activities and the industrial and commercial exploits of the companies under examination.

3.1.1 Corporate Engagement with Sustainable Development

Although tension between sustainability and the capital market has been apparent for some time, the debate was widened in the 1990s with the work of Stephan Schmidheiny, firstly in *Changing Course* (1992), and then, with Federico Zorraquin in *Financing Change* (1996). Both of these authors are industrialists who depend upon the capital market system for their business success, yet have engaged with the problematic questions regarding the role capital market activity might play in either helping or hindering the development of sustainable practices.

Schmidheiny & Zorraquin (1996) list several 'worrying' assumptions about sustainable development which might convey the wrong signal to markets. They include:

- the fact that there is a common perception that sustainability requires longer-term investments, where pay-back times might not fall in the 'good signal' time span,
- that a concerted effort to innovate may reduce present earnings,
- that for global companies, investment in sustainable development initiatives in developing countries bring with it additional high risk premiums, and

- that accounting and reporting systems do not adequately reflect risks and opportunities (p.8)

Needless to say, industry groups are particularly keen to explain the steps being taken to adopt the sustainability agenda, and organisations like the World Business Council for Sustainable Development are relentless in asserting that business is tackling the issue head on (one only has to visit their website, to view the massive efforts that business is committing to making sure the message gets across[50]). When examined closely, few companies can demonstrate a serious approach, though strong evidence of serious corporate engagement comes from some, such as Interface Inc., the world's largest manufacturer of carpets and floor-coverings. The conversion from traditional methods of procurement, production and distribution to sustainable versions came with the seemingly evangelical conversion of its CEO, Ray Anderson, who, reading Hawken's *The Ecology of Commerce* (1993), realised both the damage that his corporation had done in the past, but more importantly, the implications for the future, and the urgency required to find alternative production methods[51].

Sadly, it is difficult to find this approach, or another such passionate CEO, anywhere in the corporate sector. Indeed, the general scepticism towards corporate announcements regarding their social and/or environmental credentials can be witnessed by the number of websites that are generally critical of corporate activity (e.g. Corporatewatch.com), or even websites set up specifically to challenge specific companies and approaches (e.g. Mcspotlight.org).

Moreover, in researching corporate disclosures either in written or in web-based reports, it is rare, if ever, that any such initiative is reported with comment on the reactions of markets to the initiatives undertaken.

[50] See: www.wbcsd.org. Here can be found masses of publications and press releases dealing with policy directions, trends, case studies and action plans on issues of climate change, global development, eco-systems, etc.

[51] A full account, along with numerous broadcasts and interviews with Anderson can be found on the Interface website at: http://www.interfacesustainability.com

3.1.2 Capitalism Since the 1980s

There is a sad irony that, as the Brundtland Report was making calls for individuals and companies alike to reduce consumption (WCED, 1987), the world was moving towards almost universal free-market liberalism on a global scale. Initially led by the US and UK under the leadership of Reagan and Thatcher, countries in the west were moving inexorably to the right, and were later joined by most of the rest of the world in supporting free market capitalism. Technological innovation in the same period led to major changes in the way stock markets were both structured and operated. The 'Big Bang' at the London Stock Exchange in October 1986 saw two major changes take place which altered for good the character and practice of the stock market: firstly, the introduction of market makers combined the functions of stockbrokers and stockjobbers; and secondly, the introduction of the Stock Exchange Automated Quotation system (SEAQ) replaced the trading floor with a screen-based quotation system used by brokers. These changes heralded the emergence of 24 hour global markets linked by information technology advances which mean that, with global banking practices developed in a similar fashion, trading in markets almost never ceases, and has led to a huge growth of foreign ownership of UK companies, and vice versa.

As developing countries sought financial support from the IMF and World Bank, so conditions relating to the liberalization of financial structures meant that 'emerging markets' offered new opportunities for investors and allowed companies to be listed locally when necessary to comply with specific regulations. So, globalisation became a phenomenon which was to take hold in the 1990s and, in many ways transform the possibilities for large corporations. Fligstein (2001) identifies three particular aspects of globalisation that are relevant to this discussion of the role of companies and markets, and the implications for sustainable development.

Firstly, globalisation allows companies to identify markets and compete outside their home country, facilitated by IT connections, to establish where labour, tax regimes, and resources are most advantageous. Labour can be moved from the developed, rich, world to the developing, poor, world, because the cost of relocation, ongoing labour, and lack of regulatory costs make up for any productivity losses that might be suffered as the result of such a move (Shaiken, 1993). IT also allows longer and more complex supply chains to be coordinated and managed to make these processes viable.

Secondly, the emerging eastern ('Tiger') economies, the result of state-led initiatives to improve infrastructures of investment, human capital and freer movement of capital serve to make welcome advances from western companies (Wade, 1990, World Bank, 1993).

Thirdly, world financial markets for debt, equity and currency have grown enormously, to the level that the volumes involved are of such magnitude that central banks are often unable to control the currency flows, allowing currency speculation to threaten economies, by fuelling the rise in inflation and exchange rates (McNamara, 1998). By creating a world market for debt, individual governments are therefore prevented from pursuing all the normal options available to them, and confined to policies which will deliver low inflation, slow down growth, and curb deficit spending (Frieden, 1991).

Indeed, the more one examines the negative consequences of actions within financial markets, the more one is drawn to question the behaviour of market participants, yet a definitive sociology of markets does not exist. That is not to suggest that there is no literature on the subject, but such that there is tends to focus on markets and the investor, yet again avoiding the introduction of a moral dimension to the trading, and where they look at certain trading phenomena, company history, future plans and sustainability commitments are not explored (Knorr-Cetina and Preda, 2005).

This approach is consistent with most accounting research into capital markets which, likewise, has a very strong focus on the market mechanism, efficiency, and investment patterns.

3.2 Capital Market Research

Capital market research in accounting is based on a number of assumptions which are derived from neo-classical economic theory as outlined previously in Chapter 2. This approach focuses on the possibility of improving returns for the shareholder or potential investor. It does not normally engage in any discussion about the implications of research that privileges one section of society over another. Its language reflects its functionalist stance. Its conclusions actually often suggest behavioural change on the part of one section of society (managers) in order to protect the privileges of another (shareholder), as demonstrated by Holman et al., (1990):

‘in order to avoid adverse effects on firm value or shareholder wealth, managers need to anticipate where the government will regulate, and develop strategies for reporting and compliance focused on the long run. Corporations that fail to do so will be subjected by investors to penalties in the capital market.’ (p.150)

Equally, at the same time as exhorting managers to work on behalf of owners to avoid censure by the market, there is an emphasis on seeking to anticipate government intervention, which is normally viewed as likely to have an adverse effect on profits, ‘..to maximise PV it is necessary for investors to have confidence that in future the company will not be subject to political costs (regulation etc)...’ (Narver, 1971). And, in addition, where environmental issues are recognised as of importance, it has less to do with the degradation of the planet than with market behaviour and issues of risk, likely to affect security prices, are made the focus:

‘... in a society where there is an ever increasing environmental awareness and expectation of corporations, there are increasing risks to which the capital market is becoming sensitive.... failure of corporate management to manage these expectations in a socially responsible manner may induce the capital market to perceive lower expected earnings and/or impute a higher risk factor’. (Narver, 1971, p231)

It seems reasonably clear that some capital market researchers, by using such language as noted above are attempting to influence policy away from regulation, encouraging managers to take steps to reduce these ’political’ costs. Some researchers suggest that the negative market reaction to dubious corporate behaviour is a sufficient deterrent in itself (Strachan et al., 1983, Jarrell and Peltzman, 1985), although for a contrary argument see Bromily and Marcus (1989). Equally, the focus on wealth maximisation diverts attention from notions of what might be accepted as the ‘right’ way for companies to behave: in a socially responsible manner.

These are overtly political issues and have wide-ranging implications in areas of company law, corporate governance and taxation. One of the ways to engage in this debate with capital market researchers is to look at the needs and wants of investors and provide evidence of the demand for social and environmental information as an additional information set to assist in decision making. If investors perceive a positive association between the value of shares and a firm's social performance then the attention of the investment community may turn on that aspect of performance. This phenomena was noted by Longstreth and Rosenbloom (1973), and has been tested by researchers ever since.

3.3 The Link between Sustainable Development and Capital Markets

There are evident tensions between sustainable development and capital markets. Under the neo-classical theory of the firm companies traditionally operate 'rationally' to maximise shareholder wealth, by adopting strategies which place the entity as the single most important focus. In practical terms, as far as possible within the law, companies will therefore seek, *inter alia,* to maximise growth, externalise costs, avoid taxes, discount the future, over exploit nature, and appropriate profits. This approach is not only shared by all listed companies, but it is supported by the institutions and structures of the market mechanism. Indeed, the bonus payment system which underscores financial market activity, and is viewed as an essential element of all financial market participants' motivation, is dependent on these factors. Capitalism itself is predicated on infinitely expanding markets, increasing levels of consumption and higher production.

Sustainability, on the other hand, under the terms outlined in *Our Common Future* (WCED, 1987), and discussed above, calls primarily for a reduction in consumption, and a greater consideration of social justice issues especially by the developed world. This has a particular significance for the largest companies, who are responsible for the greatest consumption of resources.

Consumption, along with the other principal factor, population growth, will be examined in the following section.

3.4 Principle Components – Population and Consumption

The evidence that world resources are, indeed, finite is served almost daily by reports of scientific discovery. For example, 'Peak Oil' is now entering common parlance and is discussed in the popular media on a regular basis. The imperative that this phenomenon creates, to find alternative sources of fuel, manifests itself in vast deforestation projects to make way for vegetable based fuel oil options. Equally, the demand for increasing amounts of palm oil has led to instances of massive deforestation in Indonesia and South America (Chomitz et al., 2006)[52]. To make matters worse, very often this deforestation is achieved by burning, which not only adds to potential atmospheric harm, but it removes forest eco-systems, destroys wood resources that might be better used in other ways, and diminishes the effectiveness of the world's largest forests to sequestrate CO_2 from the atmosphere. Other examples of the inability of the biosphere to adequately cope with demands made of it manifest themselves in terms of climate change, desertification, species extinction, etc.

This evidence of the demands made of the world's population being in excess of the carrying capacity of the planet's resources is further exacerbated by evidence of rapidly increasing growth in the world's population.

3.4.1 Population

An examination of Tables 3.1 and 3.2, which contain the most current data available at time of writing, shows firstly, how population had grown between 1950 and 2007 both in the world as a whole, and by region, and secondly, it extrapolates the data to make predictions of the likely levels in 2050. What can be seen immediately is that even between 1975 and 2007 world population increased by 64%. Using the prediction of medium growth, by 2050, it will have increased by 125%. More dramatic increases have occurred, and are predicted to continue in lesser developed regions. In Africa, for example increases and predicted increases in the same periods are 132% and 380%.

Table 3.1: Population 1950, 1975, 2007 and 2050 according to different variants

Population of the world, major development groups and major areas, 1950, 1975, 2007 and 2050 according to different variants

	Population (millions)			*Population in 2050 (millions)*			
Major area	*1950*	*1975*	*2007*	*Low*	*Med.*	*High*	*Constant*
World	2 535	4 076	6 671	7 792	9 191	10 756	11 858
More developed regions	814	1 048	1 223	1 065	1 245	1 451	1 218

[52] Environmental campaigners Friends of the Earth and Greenpeace have continuing campaigns running to highlight the connection between vegetable oil production and deforestation. See: www.foe.co.uk and www.greenpeace.org.uk. See also the World Bank Report on Tropical Forests at: http://go.worldbank.org/TKGHE4IA30.

Less developed regions	1 722	3 028	5 448	6 727	7 946	9 306	10 639
Least developed countries	200	358	804	1 496	1 742	2 002	2 794
Other less developed countries	1 521	2 670	4 644	5 231	6 204	7 304	7 845
Africa	224	416	965	1 718	1 998	2 302	3 251
Asia	1 411	2 394	4 030	4 444	5 266	6 189	6 525
Europe	548	676	731	566	664	777	626
Latin America /Caribbean	168	325	572	641	769	914	939
Northern America	172	243	339	382	445	517	460
Oceania	13	21	34	42	49	56	57

Source: Population Division of the Department of Economic and Social Affairs of the United Nations Secretariat (2007). *World Population Prospects: The 2006 Revision. Highlights.* New York: United Nations.

Table 3.2: Population 1975 - 2050 - adapted to show percentage increases

Population of the world, percentage analysis: 1975, 2007 and 2050

	Population (millions)			*Population in 2050 (millions)*	
Major area	*1975*	*2007*	*% rise*	*Med.*	*% rise*
World	4 076	6 671	**63.7**	9 191	**125.49**
More developed regions	1 048	1 223	**16.7**	1 245	**18.8**
Less developed regions	3 028	5 448	**79.9**	7 946	**162.4**
Least developed countries	358	804	**124.6**	1 742	**386.6**
Other less developed countries	2 670	4 644	**73.9**	6 204	**132.4**
Africa	416	965	**132.0**	1 998	**380.3**
Asia	2 394	4 030	**68.3**	5 266	**118.3**
Europe	676	731	**8.1**	664	**-1.8**
Latin America /Caribbean	325	572	**76.0**	769	**136.6**
Northern America	243	339	**39.5**	445	**83.1**
Oceania	21	34	**61.9**	49	**133.3**

Source: Population Division of the Department of Economic and Social Affairs of the United Nations Secretariat (2007). *World Population Prospects: The 2006 Revision. Highlights.* New York: United Nations.

In Chapter one, the ecological limitations of the planet were described as ‘inescapable’, and as population increases, so it is self evident that the demands on these finite resources increase. If it was possible to hold world population constant it might then be possible to argue that political initiatives could bring about levels of sustainable development which was appropriate. However, we know that as a consequence of any increase in population, consumption rises, and that the results are inequitable across regions. Poverty and famine are already disproportionate in the developing world, and with predictions of population growth for Africa set to almost treble by 2050, the consequences are almost unimaginable in the present day.

The signs are not good for the poorest countries. Recent data from The World Bank show that the number of poor people in Sub-Saharan Africa (those living on less than $1 per day) increased between 1990 and 2004 by 60 million, remaining at over 40% of the population. It is also conceded that the target set as part of the Millennium Goals, that the World’s poor would decline from 29% to 10% between 2000 and 2015 was unlikely to be met (World Bank, 2007).

Plotting these trends and planning for the implications is made more complicated by issues like demographic transition, urban migration, population ageing, and the like, but the underlying problems of increasing population in poor countries, increased consumption, lower investment, and slower growth mitigates against the possibility of increasing per capita growth (Daly, 1996).

Equally, in developed countries, demand for the artefacts of modern society increases with even more damaging consequences, as can be indicated by Table 3.3 which illustrates how car ownership has grown since 1950.

Table 3.3: Cars in Use (per `000 in population)

Country	1950	1973	2000	2004
France	36	278	473	491
Germany	10	275	533	546
Italy	7	245	565	581
UK	45	240	421	463
USA	265	481	723	771

Source: Eurostat, 2007

One of the effects of the consistently high car ownership levels in the USA is to maintain its status as the highest consumer of oil in the world, using some 15 million barrels of oil daily, of which it now has to import two thirds[53].

3.4.2 Consumption – Impact of Largest MNC's

Before discussing the implications of the effects that global commercial activity is having on the environment and society, it is worth looking at some of the statistics that surround multinational corporations. It was famously reported in 2000 that of the top 100 economic entities, 51 were corporations, and 49 were countries (Anderson and Cavanagh, 2000).

Other key findings included:

- That the top 200 corporations account for over 25% of world economic activity, while employing only 1%% of its workforce,
- The Top 200 corporations' combined sales are bigger than the combined economies of all countries minus the biggest 10. Their combined sales are 18 times the size of the combined annual income of the 1.2 billion people (24 percent of the total world population) living in "severe" poverty.
- Between 1983 and 1999, the profits of the Top 200 firms grew 362.4 percent, while the number of people they employ grew by only 14.4 percent.

[53] For full statistics on official US energy issues, see: http://www.eia.doe.gov/

- A full 5 percent of the Top 200s' combined workforce is employed by Wal-Mart[54],
- U.S. corporations dominate the Top 200, with 82 slots (41 percent of the total). Japanese firms are second, with only 41 slots.
- Of the U.S. corporations on the list, 44 did not pay the full standard 35 percent federal corporate tax rate during the period 1996-1998. Seven of the firms (including the world's largest, General Motors) actually paid less than zero in federal income taxes in 1998 (because of rebates).
- 82 US corporations in the Top 200 made election donations in 2000 amounting to some $33m.

3.5 Implication of Multinational Power

Some of the issues that these forms of corporate power raise have been discussed already in this thesis, but in this context there are three further points that merit discussion: the erosion of democracy, the threat to the environment, and the potential for human rights abuse.

3.5.1 Erosion of Democracy

The implications of these indications of corporate power spread widely and affect fundamental assumptions which have been somewhat taken for granted in the past. As highlighted by the likes of Hertz (2001a, 2001b, 2004), Klein (2000), and Monbiot (2000), corporate power now extends to area which used to be the preserve of government, either at a central or local level. Each author gives examples of the erosion of democratic principles as functions, traditionally carried out in the public sector are handed over to corporate interests, and sometimes thereafter traded to other corporations with little interest in the stakeholders to the asset. Monbiot (2000) illustrates this starkly with the example of the Skye Road Bridge, which was commissioned by a Conservative government under the Private Finance Initiative, and continued by the Labour administration, and, when completed, sold to the Bank of America, who collected the tolls of the Islanders as they made their way to and from the mainland. Requests for information were denied on the grounds of commercial sensitivity, and protests led to court appearances and harassment.

[54] A company still criticised for union-busting and widespread use of part-time workers to avoid paying benefits.

Decisions on hospitals, schools, social welfare, and care for the elderly, infirm and mentally ill are now beyond the realm of elected representatives, and issues are being decided by people often thousands of miles away[55].

3.5.2 Environmental Degradation

Despite massive efforts on behalf of the multinationals to convince stakeholders of their commitment to environmental stewardship, evidence of deforestation and environmental degradation wherever commercial activity takes place present compelling support for the notion that the drive to externalize costs is as strong as ever. Case studies of major developments by major MNC's undertaken by environmental pressure groups demonstrate the environmental threats posed by new oil and gas exploration and associated transcontinental pipelines, in terms of increased numbers of oil spills, and social turmoil for those most affected. These threats are exacerbated by health and safety standards in some developing countries which are much less stringent than in the West[56].

3.5.3 Human Rights Abuse

The activities of Shell in Nigeria, Coca Cola in Columbia and India, and BAT in Kenya have been well documented (see, for example, Christian Aid, 2004), and yet continue to be the focus of much research and media attention. Child labour is still endemic in parts of China and sweatshops continue to operate in many countries in the developing world often policed by private security services aimed at preventing the openness and transparency so often emphasised in corporate reports released in the west[57].

3.6 Stock Markets: The Emphasis on Short-term Returns

The system within markets for rewarding or punishing companies has already been mentioned in the context of the signalling mechanism, but the system by which market intermediaries are rewarded itself deserves comment. The whole market system operates on short term measures of performance. For analysts and fund managers quarterly results feed into the annual bonus scheme; a bonus system which can represent a large

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[55] Thames Water, for example is owned by Macquarie Bank, and operated by a management group, Kemble Water.
[56] See, for example, the campaigns organised by Friends of the Earth against the BP pipeline across Turkey.
[57] See, for example: www. humanrightswatch.org

percentage of an individual's salary, and which collectively, in 2006, in the City of London, amounted to some £8 billion[58]. In light of the scale of bonuses awarded annually, and the anxiety within the city surrounding the projected levels of bonuses each year, it would be counter-intuitive to think that market participants are likely to voluntarily forego this method of in response to the demands for longer term investments to promote sustainable development.

3.7 Distance between Investors, Activities, and Accounts

There is a wide literature on the subject of ethical investment, and the criteria by which ethical funds are constructed are familiar to most who have looked into the issue (see, for example, Kreander, 2001)[59]. However, despite the increasing interest in ethical funds over the last ten years, they still represent only a very small percentage of the total investment universe[60]. The vast bulk of investment activity involves institutions making up to 500,000 trades daily on the London Stock Exchange[61], and there is little research on the decision making processes involved in making investments, other than traditional finance studies looking at the 'rational investor'.

Recent sociological studies of financial markets overlook the moral position of the investor vis-à-vis the activity of the target company. In their *Sociology of Financial Markets*, Knorr-Cetina and Preda (2005) invite 14 authors to contribute to the debate, none of which go beyond the financial aspects of international markets. One essay, on the place of women in financial services (Czarniawska, 2005), suggests that a glass ceiling is also evident in Markets and that women generally do not do well, 'women and children do not belong on the financial markets' (p.136), though she does not theorise to any purpose why this might be. There is no study on what motivates an individual to invest, or refrain from investing, in any particular activity.

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[58] 'The Guardian' November 20, 2006

[59] Most funds comprise a population of companies which have been screened using some form of protocol to exclude specific activities, such as the manufacture and sale of tobacco products, oil and gas production, gambling, etc. However, fund managers are reluctant to disclose the actual composition of funds, and requests on such matters, made during interviews for this study, were politely declined on grounds of commercial sensitivity. It is therefore difficult to know how different they are from other products offered by the company.

[60] As of December 2007 the estimated total value of funds under Socially Responsible Investment in the UK, was £8.88 bn (EIRIS), www.eiris.org.uk

[61] Financial Times, 9 July 2007.

Fligstein's *The Architecture of Markets* (2001) sets out to examine twenty-first century capitalist society by way of an 'economic sociology', and again concentrates on the mechanisms of capitalism, by concentrating on the neo-classical models of markets and societies and conceptions of 'value' and 'ownership'.

That investor morality goes largely unquestioned raises a number of issues about how we view the practice of investing and the responsibility investors must accept for corporate actions. Firstly, within our society the power of the investment community is so great that it appears largely indifferent to remote issues over which it perceives itself having no control. Secondly, despite the overwhelming evidence presented in the likes of *The Guardian* and *The Independent,* daily, on social and environmental issues and their links to corporate activity, trading on financial markets continues uninterrupted, and with a totally different focus. Thirdly, as individuals we can surmise that market participants perceive themselves as moral actors, yet investment behaviour in general, and the behaviour of powerful individuals, is motivated by short-term returns.

In an interview for Joel Bakan's film version of *The Corporation,* a Wall Street trader, Carlton Brown, was asked about trading activity and the profits made from trading in gold on 9 September 2001, as the twin towers were turning to dust (Bakan, 2004). He talked about his efforts to get his clients 'out', but meant 'out of the gold market'. He succeeded, and 'everyone doubled their money' (p.111). Other interviewees talk of the market as 'amoral', suggesting that issues of morality and ethics should have been negotiated before the trading process began – i.e., is not the traders job to think about morality.

Although there seems little that can be said in defence of the actions of the trader above, his behaviour is not untypical. Whenever there is a natural disaster or commercial accident news reports often focus on market reaction. We know that to cause a market reaction, huge amounts of share trading must take place, therefore we can assume that individuals have done what Carlton Brown did, and react in a 'rational' way to events, protecting their financial interests at all costs.

Part of the issue here is that of 'distance'; i.e. the distance investors perceive that they are away from the activities of the companies. Analysts' reports do not regularly include social and environmental information, unless it is there as an issue of risk. Therefore, investment strategies by fund managers focus on the predictions of future cash flows. Equally, the distance between financial accounts of company activities and the actual activities mean that rational decisions are made on partial information. It is in this area that advances in social accounting may act to 'educate' participants[62].

3.8 How Capital Markets Work – No Discipline on Investors

Earlier in this Chapter, and in earlier Chapters, the idea that market can 'punish' or 'reward' companies depending on the signal they receive, was discussed. Of course, it is not 'the market' that hands out either the rewards or the punishment, but the aggregate market activity of individuals and institutions that invest or disinvest in particular companies over a period. There is no similar 'discipline' on investors for 'bad' behaviour. If it turns out that a company's performance is based on illegal acts, as Enron's was, there is no retrospective sanction against all those who backed it and added to the veil of legitimacy.

A great deal of evidence points to market behaviour motivated by greed and a way of working in the present era which demands immediate decision making on the part of market participants, lest they be left behind in the rush for returns.

3.9 Chapter Summary

In this chapter the tensions between sustainable development and capital markets were discussed and elements of each factor identified in order to explore areas where social disclosure might fulfil a positive role.

In the next Chapter, prior to developing a model to investigate empirically the associations between market behaviour and social and environmental disclosure, a review is undertaken of the literature, which covers some thirty years of research into social disclosure, social performance and financial performance.

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[62] However, there are attempts to engage analysts in including social and environmental consideration in their analysis. The Enhanced Analytics Initiative, the UN Principles for Responsible Investment, and the Marathon Club, which have the backing of major financial institutions, are working in different ways to get financial intermediaries to take sustainability seriously.

Chapter 4

Empirical Literature Review

4.1 Introduction

Chapters 2 and 3 set the context for this study and opened a discussion on the difference in focus between capital market research and social and environmental accounting research. The purpose of this chapter is to move this discussion along and explore the issues central to the thesis: why do companies engage in what might be perceived as non-profit-making activities? – is there a connection between a company's social performance and its financial performance? It is, surely, counter-intuitive to think that companies would undertake expenditure knowing that there was to be no return. But, can the return be identified and measured?

Although there has been interest in the social responsibility of business stretching back to the 1950s (Bowen, 1953), it was in the 1970s that the subject became the focus of researchers, and empirical studies began to proliferate. The reasons for this will be explored below. Since the early 1970s to 2004, I have identified some 150 studies that have examined the relationships among social disclosure, social performance and financial performance. In this chapter I will give an overview of all that research in the area to put the thesis in perspective, since the thesis covers two distinct pieces of research: the first using a large dataset examining the statistical association between Social Disclosure and Financial Performance; the second a series of interviews with senior company officials examining their perceptions of the link.

The aims of this chapter are:

- To chart a comprehensive landscape of the research literature.
- To introduce a research matrix encompassing some 150 studies from 1972 to 2004
- To present a cohesive overview of the studies and the results
- To discuss the reasons why little consensus is apparent in the results.

4.2 The Rationale for this Research

Milton Friedman's (1962, 1970) claims that the only legitimate function of business is to make profit has caused researchers in the area of Corporate Social Responsibility to respond by seeking to prove this to be too narrow a view to take of the relationship of business within society. This response has manifested itself across a variety of management and business journals where research has been undertaken to prove links among social performance, social disclosure and financial performance. The importance of this link is that in western liberal democracies shareholders' rights are regarded as paramount (and a legal duty of directors to protect) and shareholder returns, seen in terms of profits and dividends, underpin all corporate activity, reflecting the stability of the economic system of the nation.

The power of 'the market' is also now seen to transcend national boundaries, and the manner in which one country's financial markets rely on the stability of markets in other nations can be evidenced by examining some of the volatility over the last two decades. It follows that any corporate behaviour that is likely to affect stock prices detrimentally would be viewed with scepticism by the market and the company punished by having their stock price discounted. It is therefore unlikely that across industries and sectors modes of behaviour would develop in opposition to market expectation and continue in the face of market disapprobation.

Yet companies are obliged, by law if nothing else, to be concerned with issues such as the health and safety of the work-force and environmental protection and may generally be expected to engage in some forms of corporate philanthropy, from community involvement to charitable donations. These latter aspects were made a condition of the privatisation of the previously publicly owned utility companies in the UK in the 1990s. The questions that interest researchers in the field relate to the extent to which social performance, in the widest sense, impacts on financial performance, and whether or not it is possible that a company which behaves in a socially responsible manner may be rewarded by the market? Intrigued by the same set of contradictions, Fry and Hock (1976) asked the following set of questions:

> 'What are corporations telling us? Why are they giving emphasis to communicating their concern for social responsiveness? Are the companies reporting progress in the social arena the ones that have received the most pressure from the public? In which industries do companies give the most emphasis in their annual reports to social responsiveness? Is there any relationship between the profitability of a firm and its claimed responsiveness?' (pp. 63-64).

In their article few details of the empirical side of their study are published and their questions go largely unanswered but their main conclusion, that disclosure is related to size and industry, has been confirmed by many more detailed studies since (see, for example, Trotman and Bradley, 1981, Cowen et al., 1987, Gray et al., 2001).

Nevertheless, the fact that there has been so much interest in this research area over such a long period deserves a moment's reflection. To understand the initial interest means that we need to look back over 30 years to try and understand the ways that companies were operating prior to the neo-conservative agenda that emerged in the early 1980s (and largely continues today). It was observed by the AICPA (1977) that

> 'Profound changes have occurred in society during the past twenty-five years… fundamental institutions have been challenged to provide socially responsible conduct and public accountability for their actions. Business, more than most, has been so challenged'.(p.26)

The AICPA's report was in response to a building interest in the social performance of business in the 1970s. Despite Friedman's (1962, 1970) assertions about the wealth maximisation, there was more than a passing interest being taken in the responsibilities of business, beyond the profit motive. In the US, Milton Moskowitz had founded his *Business & Society Review* in 1972, and compiled an index of top US companies by reputation. Also, the Ford Foundation had commissioned a study to examine the link between corporate social responsibility and the institutional investor (Longstreth and Rosenbloom, 1973). In the UK Social Audit was founded in 1971, although the initiative was somewhat lacking in impetus. Nonetheless, by the end of the 1970s several studies trying to demonstrate a link between social performance and financial performance had already been published (see, for example, Bragdon and Marlin, 1972, Moskowitz, 1972, Bowman, 1973, Bowman and Haire, 1975, Moskowitz, 1975, Spicer, 1978a, 1978b). However, it is clear from even a perfunctory reading, that these studies were all looking at 'the business case' for adopting measures of corporate social responsibility. The idea that business could be profitable as well as socially responsible provided an appeal for both managers and researchers which continues to the present day.

In addition, data on which many of these studies are based became available in the 1970s. For example, legislation in the US required US companies in the petroleum refining, steel, pulp and paper, and the electricity utilities sectors to disclose expenditure on pollution control. The Council on Economic Priorities, which was founded in 1969[63], collated this information and made it available in a form that could easily be used by researchers, some of whom saw the potential for this form of study (Bragdon and Marlin, 1972, Bowman and Haire, 1975, Fogler and Nutt, 1975, Ingram, 1978, Chen and Metcalf, 1980, Freedman and Jaggi, 1982, Wiseman, 1982, Ingram and Frazier, 1983, Shane and Spicer, 1983). Moskowitz compiled a league table of best and worst social performers, and this spawned another wave of research (Moskowitz, 1972, Bowman and Haire, 1975, Vance, 1975, Sturdivant and Ginter, 1977, Spicer, 1978a, Cochran and Wood, 1984). However, perhaps the most significant work in this period was done by Beresford (1973, 1974, 1975, 1976, 1976) who compiled a database of social disclosure. The database will be explained more fully in subsequent chapters, (as the CSEAR database used in the first study in this thesis is largely a more refined version of the Ernst & Ernst version), but briefly, categories and sub-categories of social and environmental disclosure are identified and used as the basis for analysing the content of annual reports. Beresford and Feldman (1976) also reported a notable change in the disclosure patterns of Fortune 500 companies: 51.4% were providing social responsibility disclosures in their annual reports in 1971; this rose to 60.1% by 1973. Although this database only ran for a few years[64], it provided a valuable resource for researchers who used its data for a much longer period (Ingram, 1978, Preston et al., 1978, Abbott and Monsen, 1979, Anderson and Frankle, 1980, Belkaoui and Karpic, 1989). So, therefore, as interest in the subject grew, the available data allowed a vast number of possibilities for analysis. The prevailing purpose of these positivistic studies was (is) to guide managerial or investor behaviour, and to able to prove a correlation of either direction. However, owing to the wide variety of statistical methods adopted, the range of proxies available in the absence of a measure of 'social performance' and the equally wide range of variables available to reflect financial performance, so the results proved, at best, inconclusive, and at worst contradictory.

[63] The CEP was founded by Alice Tepper Martin who, as a financial analyst, had been asked to research companies who did not have involvement in the Vietnam War. Finding that no such index existed, she set about compiling a list. Over 600 church and other groups thereafter requested this list. As a result of this interest the CEP was founded six months later.

[64] The database was sponsored by Ernst & Ernst, but only ran until 1976.

4.3 Literature Overview

The literature in this field has been analysed by a number of scholars in many different ways, but predominantly the focus is on the sign of the association between the variables under research. The variables, in this context, are Social Disclosure (SD), Social Performance (SP), and Financial Performance (FP). However, depending on the choice of dependent and independent variables and the various proxies available, this does not allow for much meaningful comparison between studies. Also, in addition to each paper reviewing its own relevant material, there have also been at least 19 detailed literature reviews, each focusing on between 7 and 95 studies, plus two meta-analyses of quantitative studies. The sheer volume of research in this area makes concise analysis problematic. In one of the most comprehensive of these reviews, Margolis and Walsh (2001) identified 95 studies and their analysis spread to around 140 pages. They employed a large number of tables to analyse the various proxies, dependent and independent variables, etc, yet the review still lacks an overall coherence, possibly due to the sheer volume.

The studies identified for this Chapter include all the published papers which I managed to obtain through electronic or library resources. This, therefore, includes most of the studies referred to in other literature reviews, but does not include unpublished work, conference proceedings, or other papers which proved difficult to source. In all, this amounted to some 150 studies. Faced with the same issues as other reviewers, I have constructed a matrix for analysis which is presented as Appendix 1.

Taking Ullmann's (1985) analysis as a guide, the studies are grouped into a number of categories, where associations among the variables social disclosure, social performance and financial performance are examined. However, before looking in details at these categories, it is useful to summarise the research over the years. I have chosen to look at 3 periods: 1970 – 75; 1975 -1985; and 1985-2005.

4.3.1 Summary - Early Study Results 1970 – 1976

The first thing on which to make comment on the 1970s studies is the marked difference in presentation and analysis from academic studies today. That is to say that they were largely discursive, with the statistical element often not fully explained, yet serving to inform the text. Studies such as Bragdon and Marlin (1972), and Fry and Hock (1976) are referred to in more recent literature as authoritative studies, giving weight to the evidence of a positive or negative sign. Yet, whilst they may add something to the discussion, they were clearly written for a general managerial consumption, and the value of the sign of the correlation must be treated with some scepticism[65]. Bragdon and Marlin (1972), for example, acknowledge that analysis of some of the tables 'do not represent a valid statistical test', and that, 'if we correlate the pollution control indices for all companies, our results are not very interesting'.[66] The Fry and Hock (1976) study is a 4-page discussion of a study in which no tables or results appear. Yet both these studies are still referred to as evidence of the SP-FP link. The same, I suggest, applies to the Moskowitz (1972, 1975) studies which cannot be relied on for any form of statistical evidence. What they do, however, is suggest that it may be possible for companies to make profits while at the same time, 'doing good'. These words, it seems, were meant for managers struggling with the imperative of justifying (at that time) increased expenditure on pollution control[67].

What we then see is that studies soon appeared to criticise the findings of the early studies: Vance (1975) took issue with Moskowitz (1972), and Alexander and Buchholz (1978) took issue with both Vance (1975) and Moskowitz (1972, 1975), on methodological grounds. Whilst not attempting to denigrate the studies, *per se*, my purpose in highlighting them is to suggest caution in attaching weight to the results suggested[68].

By the end of the mid-1970s, however, the rigour of the studies increased as the statistical method was refined within accounting research. The big data sets began to be utilised,

65 This discussion is continued in the Roman et al (1999) response to the Griffin & Mahon (1997) literature review and analysis.
66 Joseph Bragdon was an Account Executive with H.T. Wainwright &Co when this article was written. The article is based on a presentation made at a meeting of the Financial Management Association.
67 An endnote in the Bragdon and Marlin (1972) article mentions that Dow Chemical were reporting that their pollution expenditure was realizing a profit.
68 It has become a feature of review articles to produce tables of studies showing the sign of the association between social performance and financial performance.

and the emphasis moved away from discursive papers for primarily managerial usage, to a form of paper that was to become familiar over the next 30 years.

4.3.2 Summary - Studies 1976 -1985

By 1985, the range of studies had widened and the focus changed to examine the different aspects of the SP-FP equation. Associations were sought between Social Disclosure and Social Performance, Social Disclosure and Financial Performance, and Social Performance and Financial Performance. However, the research was conducted on an apparently *ad hoc* basis, and the results were contradictory, again largely due to the choice of variables chosen by the researcher. This lack of coherence moved Ullmann (1985) to describe the field of research as 'data in search of a theory'. His review of the studies (1972-1982) concluded that as well as lacking in theory, there were problems with researchers being unclear about the key terms being used in their studies, and problems with the data.

4.3.3 Summary – Studies 1986 – 2005

Ullmann (1985) based his observations on 28 studies. Since then more than 120 more papers have been published on the broad research area. As the literature search for this chapter progressed so the range of journals identified as publishing in the broad area expanded to encompass, in addition to the accounting literature, a much wider management and 'business and society' set of journals where this link has been an equally enduring strand of research over the same period. However, some of the problems with the empirical studies persist: the rationale is often not explained, and the results insufficiently theorised; the choice of variables often appears arbitrary; and the proxies for social performance often stretches credibility to the limit. These specific issues will be discussed below.

My analysis of the various studies follows a pattern of the search for linkages among the variables. The first group of studies look at the relationship between Social Disclosure and Financial Performance. They are sub-divided between those that use market variables and accounting variables. This is relevant to the first study in this thesis, which tests the association between Social Disclosure and Financial Performance, using market based variables, and the rationale for using this approach will be examined more closely in the next Chapter.

4.4 The Social Disclosure – Financial Performance Link

Summarising this aspect of the research, the first issue to note is that few studies are in any way comparable. Different datasets, time periods, and measures of both social disclosure and financial performance combine to offer little chance of consensus. If the object was to prove an association between high disclosure and high returns, the results are disappointing: 11 show a positive association, 5 show a negative association, 9 are inconclusive. As mentioned previously, some of the studies were criticised for the use of particular methods, or data, in subsequent papers (Vance, 1975, Alexander and Buchholz, 1978, Frankle and Anderson, 1978).

If the purpose was to gain some insight into the motivation of the researcher, then it is unsurprising, given the nature of the studies, in which the overwhelming motivation was to test the information content of the disclosures under examination. The finding of the association seems to have been the purpose in itself, typical of the decision-useful approach to accounting research. Few authors theorised other possible outcomes of the study, although Belkaoui (1976) discussed (briefly) the possibility of the existence of the 'ethical investor'[69].

However, Fry and Hock's (1976) questions, regarding the responsiveness of corporations to society's concerns, remain not only unanswered but largely ignored in the plethora of research activity in this area.

4.5 The Social Disclosure – Social Performance Link

Perhaps concerned by the recurring problem of finding an accurate proxy for social performance to use in continuing studies, a number of studies examined the connection

69 In Appendix 1 the SD-FP studies are split between those using market variables and those using accounting variables. The reason behind this relates to the design of the first empirical study in this thesis, which examines the association between social disclosures and market returns. The rationale behind this choice will be examined in the next Chapter.

between social disclosure and social performance. I have identified 12 such articles. In considering these studies it is worth remembering that 2 events made the required data available. Firstly, a SEC directive in 1973 required that all 10K reports included disclosures on expenditure on pollution prevention. Secondly, the Ernst & Ernst database became available.

Although in the preamble to some of the studies there is some discussion on the theoretical purpose driving the research, there is an overwhelming notion that the purpose is to illuminate the investment decision. Bowman and Haire (1976) conduct a lengthy discussion about corporate social responsibility and externalities. They examine the 1973 annual reports of 82 companies from the food processing sector and conclude that '…both society in general, and the investor in particular, can receive a broad picture of social responsibility'. That the purpose of the disclosure is to inform the investor community is so implicit throughout the study that it continues unquestioned. They also ascribe to the Annual Report a status that has since been, and remains, contested: '…it is possible to state that discussion in annual reports gives a valid indication of the level of some corporate activities – including corporate social responsibility'. Indeed, by the time Freedman and Wasley (1990) conclude their study, they call for 'regulation of the environmental disclosures', and, 'improvements in the mandatory 10K disclosures…if environmental disclosures are to be useful to financial statement users.'

4.6 The Social Performance – Financial Performance Link

It is in this category that most studies fit. I have identified 60 studies (some of which used more than one method of analysis), plus 26 straight event studies (which are examined below). There have also been about 20 reviews of the literature between 1978 and 2005. Broadly speaking, this area of research is epitomised by a continuing focus on investor behaviour; a continuing use of whatever data is available, although latterly, a search for more reliable measures of both social and financial performance. Some of the more recent literature reviews have been more forthright in highlighting the methodological shortcomings of some of the earlier studies, and urged caution when interpreting the results (Richardson et al., 1999, Roman et al., 1999).

What also characterises this research is that, despite the call by Ullmann (1985) for more theorising, to a large extent it is still missing in the empirical arena. Even in their review of 25 years of research, Griffin and Mahon (1997) ground their study a) in terms of Friedman's (1962, 1970) assertions and b), the inconclusive nature of the research into the SP-FP link. Their approach, like so many others in the development of the research agenda, is to try and find more reliable proxies for the variables under examination.

However, in addition to the choice of variables and proxies, various other factors mitigate against comparability. The vast majority of papers (78% in the case of Griffin and Mahon (1997)), are large, cross-sectional, multi-industry studies. This is despite suggestions that certain financial measures may be more appropriate for one industry than another (Wokutch and Spencer, 1987, Davidson and Worrell, 1988). Equally, measures of social performance may be more appropriate for one industry than another.

Over the years, this has led to the search for more appropriate measures and proxies for SP. The CEP data included companies from a limited number of sectors; the Moskowitz and Ernst & Ernst data only covered a short time span. It also became something of a consensus that these data sources each had their own set of limitations and that multiple sources of SP data represented a more reliable proxy. This move can be observed in more recent studies that use multiple sources of SP measures, most notably the indices developed by *Fortune* Magazine and Kinder, Lydenberg and Domini & Co Inc.(KLD) in the USA, and the Canadian Social Investment Database (CSID) developed by Michael Jantzi Research Associates (MIJRA)[70], (see, for example, Wokutch and Spencer, 1987, Waddock and Graves, 1997a, Boutin-Dufresne and Savaria, 2004)[71].

The *Fortune* reputational index ('America's Most Admired Companies') involves company executives, directors and analysts assessing companies on eight categories of performance: quality of management, quality of product, financial soundness, value as a long-term investment, use of corporate assets, innovativeness, ability to attract and retain

[70] This is now known as the JSI index. It is a socially screened, market capitalization-weighted common stock index modelled on the S&P/TSE 60. The JSI consists of 60 Canadian companies that pass a set of broadly-based social and environmental screens, which attempts to reflect the current state of socially responsible investing in Canada. See: www.socialfunds.com

[71] In the OECD countries, agencies which run reputational indices operate in Australia, Belgium, Canada, France, Germany, Italy, Japan, Netherlands, Spain, Sweden, Switzerland, UK, and the US. For more information, see (Marquez and Fombrum, 2005).

key people, and CSR. The *Fortune* company index is a simple average of the scores. The KLD index, on the other hand, is viewed as more ‘objective, in that the various factors which comprise the assessment are decided by external ‘experts’ who make their assessments based on the information available at the time. It was created in 1990 and marketed as the Domini Social Investment Index to Fund Managers and market participants interested in Socially Responsible Investments. It assesses companies by measuring performance against ten criteria: community relations, diversity, employee relations; environmental performance, the product, treatment of minorities, nuclear power and non-US operations, involvement in alcohol, gambling, and tobacco and military contracts, as well as an ‘other’ category. Each company is assessed on what is effectively a five-point Likert scale, running from *major weakness* to *major strength.*

However, whichever index is used, there are still unresolved issues that are difficult to overcome from the point of view of what might be considered to be ‘good science’. For example, in one critique, they are condemned for the fact that the criteria on which they are developed ‘…are not based on theoretical arguments and do not appropriately represent the economic, legal, ethical, or discretionary dimensions of the corporate citizenship construct’ (Maignan and Ferrell, 2000). Clearly, the criteria may be considered subjective and somewhat arbitrary - why eight dimensions, rather than 11, or 17? What are the theoretical considerations that feed into the selection process that came up with the 8 that were chosen, etc?

4.7 Social Performance – Financial Performance – ‘Event’ Studies

The use of ‘event’ studies in this area of research has been rather spasmodic, although I have included a number in the collection of studies discussed above in this Chapter. Those included above were so included because of the rationale laid out in the research agenda of the paper, and the use of the event study is so justified. Under this heading are a collection of studies where the event studied is almost ancillary to the nature of the study. The subjects under examination are classified as ‘CSR-related’ but it seems at times to be a loose association. They are included mostly because of the Frooman (1997) meta-analysis which chose Social Performance factors as the *event*. In searching for the sample, he defined a CSR event as:

> ‘An action by a firm, which the firm chooses to take, that substantially affects an identifiable social stakeholder’s welfare’. (p. 227)

This definition is chosen in order to remove from the sample the plethora of event studies which seek to ascribe information content of issues outside the control of the firm. His meta-analysis specifically wished to examine firm specific behaviour where it is the action of the firm that has caused an event which can then be scrutinised for market reaction.

The CSR events that were identified (from 23 articles), and from which the sample of 27 studies was compiled, comprised: violations of antitrust laws (5); manufacturing and subsequent government-mandated recall or withdrawal of substandard quality or dangerous products (9); criminal misconduct (price-fixing, tax evasion, fraud, financial misrepresentation, etc.) (7); pollution of the environment (3); and violations of governmental regulations (3).

The ‘victims’ of the corporate behaviour thus encompassed include, as one might expect, consumers, employees, the government, the community etc. However, in the case of the studies that examine antitrust behaviour, it is the management and employees of the target firms that are identified as the affected groups, and therefore this aspect of corporate behaviour, not normally associated with studies into CSR is included.

Frooman (1997) uses the test statistic values, and makes use of a direct weighted linear combination of estimators method of meta-analysis following Hedges and Olkin (1985). Three procedures were followed for analysing the data: a test for homogeneity, a test for significance, and a computation of effect size. The result of the meta-analysis suggests negative abnormal returns are related to illegal or irresponsible behaviour.

Once again, however, this analysis of event studies does little to help us to theorise what is going on within company boardrooms. All these studies are conducted ex-post, and despite the assertions of the event study researchers that the events identified are ‘CSR’ events, it is difficult to be persuaded to draw any firm conclusions from the market reaction to a product recall, or news of a legal action. Also, the studies only make conclusions based on a relatively short time-frame and, to my knowledge, there have been no follow-up studies looking at how share prices recover (or not).

4.8 35 Years of Research beyond Comparison

What then are we to make of this massive catalogue of research? On the face of it, the there seems to have been a massive amount of effort expended for little return – only a plethora of conflicting signals, and a continuous drive to refine the method of analysis. However, there are a number of positive aspects to emerge since Ullmann's (1985) observations regarding theory, data and definitions. From the review above it is arguable that there is an ongoing problem with the data under examination, but his criticisms that that the area lacked theory, and there was confusion over the key terms, at least have been addressed by a number of studies.

It is evident that a large majority of studies (including all the event studies) approach the subject area with a finance perspective where the research is, for example, to examine the future regulatory costs following the human and environmental disaster at Bhopal (Blacconiere and Patten, 1994), or the effect that the nuclear accident at Three Mile Island had on other firms within an industry (Bowen et al., 1983), or on stock prices (Hill and Schneeweis, 1983). This approach offers little to the quest for understanding the practice of corporate social reporting (see also: Gray et al., 1995b, Gray et al., 1996).

Some, however, do attempt to theorise the complex relationships that exist among the diverse groups that are involved in determining what social performance means, and for whom research in the area may offer some insight. Measurement of social performance has involved the refinement of choices of proxies relating to the choice of stakeholder groups that properly reflect 'social performance'. Griffin and Mahon (1997) make the following observation:

> '…academics and practitioners alike should be concerned with the variability and inconsistency of these results. Some of the reasons for these contradictory results stem from conceptual, operationalization, and methodological differences in the definitions of social and financial performance' (page 72)

This reiterates some of the criticisms already highlighted, and suggests that, despite the passage of time and much research time expended, researchers still have to grapple with the appropriate constructs of social performance and financial performance. It should be noted, however, that while many of the empirical studies commented on the shortcomings of the measures available, others grappled with the theoretical problems of modelling social performance. Wood (1991a, 1991b) built on the work of Carroll (1979) in articulating and developing such a model based on a) principles of corporate social responsibility, b) processes of corporate social responsiveness, and c) outcomes of corporate behaviour. Despite these efforts, and the fact that the paper is widely cited, little additional work has been undertaken in the last 15 years to develop further models of social performance, probably because of the issues outlined already.

4.9 Theoretical Developments

However, despite the complexities and the criticisms of the SD- SP - FP area of research, theoretical ground has been made to offer a more insightful understanding of the overall research field. Within the area of social performance, in addition to the continuing search for more relevant measures, research continues to refine the concepts and definitions of the variables. For example, one of the most contested variables: that of 'the relevant stakeholder group' has been the subject of wide ranging discussion. 'Stakeholder theory' has been developed almost as a research area in itself; some insights being gained as a by-product of all this research activity, and some as the result of unconnected studies. Taking as a starting point Freeman's (1984) definition of as a stakeholder as, '…any group or individual who can affect or is affected by the achievement of the organizations objectives', the discussion has moved on to reappraise the relationship corporations have with wider society (see, for example, Gray et al., 1997, Ackerman and Alstott, 1999, Agle et al., 1999, Berman et al., 1999, Harvey and Schaefer, 2001, Owen et al., 2001, Blowfield, 2002, Andriof et al., 2003, Brammer and Millington, 2003, Buysse and Verbeke, 2003, Carroll and Buchholtz, 2003, Cummins, 2004) [72]. The wider role of ethics

[72] There are, however, dissenting views to this stance (Sternberg, 1996, 1997, Jensen, 2001, Phillips et al., 2003).

in corporate activity has also become a vibrant area of research with four main journals concentrating on ethical issues[73], as well as a number of Institutes promoting research[74].

4.10 Chapter Summary

This chapter has sought to give context to the extensive research that has examined the associations among the variables of social disclosure, social performance and financial performance. The central questions of the thesis relates to the trend of increased social disclosure, the operationalisation of social responsibility and ultimately, the reward companies might obtain by being 'good citizens'. This literature set was reviewed to shed light on these issues. That social disclosure is increasing is beyond doubt, and will be further examined in the next Chapter, but the rationale behind this trend is more difficult to identify.

It was established that much of the research can be classified as 'decision-usefulness' research and, as such, sheds little extra light on the motivation behind the trend of companies voluntarily disclosing social responsibility practices, or engaging with social responsibility agendas. Equally, within this grouping of research articles, if it was to be hoped that there might be some consensus on the rewards obtained for being more 'responsible', the evidence is less than overwhelming.. With the availability and use of so many different variables and proxies for both social performance and financial performance, coupled with the various time frames chosen, comparability is always likely to be problematic. But the conflicting and, at times, contradictory nature of the results is problematic.

What was identified, however, was a response to early criticisms that the subject area lacked theory with lots of evidence presented that theoretical aspects are being addressed. Equally, the way that social performance is measured has undergone considerable refinement in light of some of the theoretical criticism.

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[73] The four main journals are the Journal of Business Ethics, Business Ethics Quarterly, Business Ethics: A European Review, and the Journal of Business Ethics Education.
[74] For example: The European Business Ethics Network, and the International Business Ethics Institute.

Specifically, however, the relationship between social disclosure and financial performance is not fully explained by the research and equally, within this broad category of research and in the context of the issues explored from this point on in the thesis, the relationship between the disclosures made by companies and the market implications needs further examination. In the following Chapter these issues are explored and a study is designed to examine the associations which may be present between social disclosures and share returns, to focus specifically on capital market responses to social and environmental issues. Additionally it will use UK data in longitudinal as well as cross-sectional form to seek greater insight into the disclosure process.

Chapter 5

Model and Study Design

5.1 Introduction

In Chapter 4 the broad literature set that comprises the social performance – financial performance link was analysed and, largely, criticised for failing to bring coherence to the research field. Very few studies explained why they were being undertaken, although in the vast majority of studies the underlying motivation seemed to be focused on the investor; to provide information useful to a rational investor who could use it to make 'better' investment decisions. It was identified that the motivation lay, too often, in merely attempting to establish a link between the two variables without examining any of the underlying issues, which might help us in theorising the associations.

This chapter seeks to advance the discussion by developing a research project to test the relationship between share returns and social disclosure in UK companies. The critical role that markets play either in promoting or hindering sustainability is the focus and the motivation of this, the first of two empirical investigations in this thesis and, by using a database of 10 years of social and environmental disclosures by UK Top 100 FTSE companies, it is hoped that new insights may be gained into the, so far, tenuous connections that exist.

The chapter will initially focus on the issue of market behaviour with respect to social disclosures and looks at previous research which specifically examines the association between social disclosure and market performance. What emerges is significant in that all previous studies use US data, and it is posited that similar investigations of UK data might serve to shed new light on the issues under examination. Indeed, a suitable data set is identified using UK data, and this database is described, and the research model outlined. The form the tests will take are discussed and the descriptive statistics derived from the sample are discussed.

5.2 Social Disclosures and Market Reaction

In Chapters 2 and 3 the broad differences in approach between mainstream accounting research and social and environmental accounting research were highlighted. This was followed in Chapter 4 by a review of the literature which had focused on the possible associations among social disclosure, social performance, and financial performance. As noted above, the primary focus of most studies revolved around possible assistance to investors. As such, the majority of research undertaken since the 1970s offers little evidence that investors turn to social and environmental disclosures as a guide to their investment plans, although it is acknowledged that there is some evidence that it is of some use. What is clear, however, is that companies continue to increase the *voluntary* disclosures in the annual reports[75]. This sets up the paradox for the market: is this activity a waste of resources, as in the Friedman (1962, 1970) doctrine, or might it convey some new information?

As general awareness grows under media exposure of climate change, child labour abuses, deforestation and the like, so company executives have to be more aware of the fast moving developments in these areas. For example, much is made of the 'business case' for adopting new technology and techniques to achieve what is regarded as best practice (Mc Millan, 1996, Stone, 2000). Equally, potential risks to reputation are increasingly highlighted as a threat to market value (see, for example, Dallas, 2004, Charkham, 2005), let alone the possibility of costly law suits. Equally, although the growth in Socially Responsible Investment (SRI) still only represents a very small percentage of the total investment universe, it is a growth area and therefore managers would be imprudent to ignore the trend.

Analysts, on the other hand, are showing an increasing interest in social and environmental information, evidenced by the number of publications and web-based resources that focus on the subject (see, for example, Hudson, 2006). This is despite the fact that the 'information' value of such data is far from being established beyond doubt.

There is also evidence, most significantly from the increasing number of SRI funds, that there is increasing investor interest in the subject. It can be seen from Table 5.1 that the total sum under SRI investment, although fluctuating in overall size over the last few years, shows an upward trend and at December 2004, at over £5.5bn, has more than trebled since 1997. When analysed in terms of policy holders it can be seen that in the same period the number of policy holders also more than trebled.

[75] In addition, governments continue to increase the requirements governing the disclosure of social and environmental data (see Murray et al 2006 for further discussion)

Table 5.1: Historic SRI/Ethical data from 1997[76]

Year	Pooled SRI fund size(£m)	Number of unit or policy holders in pooled ethically screened funds
1997 (June)	1,465	137,000
1998 (June)	2,198	304,000
1999 (June)	2,447	321,000
2000 (June)	3,296	366,000
2001 (June)	4,025	456,000
2002 (Mar)	3,800	469,000
2003 (June)	3,570	452,000
2004 (June)	4,555	464,000
2004 (Dec)	5.532	449,154

Of course, it is not easy to establish reasons for the increases noted above. From the optimistic point of view it might be hoped that investors are becoming more aware of the social and ethical implications of investment behaviour, but at slightly less than half a million policies and representing only a very small percentage of the investment universe, it is unlikely that the SRI industry will be the agent of change we might wish for, at least in the near future. It is for this reason that social disclosure has a significant part to play in the 'education' of market participants, in the hope that some form of transformation may take place (Murray et al., 2006).

5.3 Previous Social Disclosure and Market Performance Studies

A central criticism of the studies examined in Chapter 4 related to the variety of variables utilised in previous studies in representing both financial performance and social performance. It is worth bearing in mind that although a huge literature was identified in

[76] Data for other years is available at:www.eiris.org

Chapter 4, only a relatively few studies considered market measures as the financial performance indicator. Those that were identified are shown in Table 5.2, and a number of issues are worthy of discussion as a precursor to this study.

Table 5.2: Studies examining the relationship between Financial Performance and Social Disclosure- Market Variables

	Authors	Purpose	Sign
1	Belkaoui (1976)	To test for the 'ethical' investor	+
2	Ingram (1978)	To assess the impact of SD on investors	+
3	Anderson and Frankle (1980)	To test the effect of SD on the Market	-
4	Jaggi and Freedman (1982)	To test the market reaction to pollution disclosures	+
5	Shane and Spicer (1983)	To test the market reaction to external disclosures	+
6	Mahapatra (1984)	To test long term market reaction to CSD	-
7	Stevens (1984)	To test the market reaction to CSD	+
8	Holman, et al (1990)	To test the market reaction to CSD	-
9	Newgren et al (1985)	To test the market reaction to environmental assessment	+
10	Freedman and Jaggi (1982, 1986)	To test the market reaction to pollution disclosures	0
11	Belkaoui and Karpic (1989)	To test among SD, SP and FP	0
12	Patten (1990)	To test the market reaction to SD (Sullivan Principles)	0
13	Blacconiere and Patten (1994)	To test the market reaction to SD (Bhopal)	+
14	Blacconiere and Northcutt (1997)	To test the market reaction to SD (Superfund)	+
15	Al-Tuwaijri et al (2004)	To test among SD-SP-FP	+

One of the first investigations in this area was undertaken by Belkaoui (1976). He used matched portfolios to test the hypothesis that socially aware companies are rewarded with higher share prices by the market. He argued that social costs such as 'pollution and other externalities' should be identified and reported if companies were 'to fulfil their social as well as their shareholder responsibilities' (p26). He, therefore, hypothesised that the disclosure of this pollution expenditure data (as a proxy for social performance) would be positively correlated with share price movements over the months following disclosure, as investors recognised the socially responsible stance of the company.

An analysis of the results revealed a temporary positive correlation between share price and disclosure. During the period prior to the disclosure of these pollution control expenditures, it was found that the disclosing companies under-performed the market, yet for a period of four months after disclosure this situation was reversed and they outperformed the market; he suggested, that this change '...indicat(ed) a sharp reaction to disclosure' (p.29). Belkaoui offered two explanations for this behaviour. Firstly, he argued that it represented an efficient response to the new information contained in the expenditure details, which, until published would be classed as 'insider information'. He suggested that the price should rise to the point '...where the efficient market found them to be fully valued and started selling the shares' (p30). Secondly, he suggested that the share price movement might be due to an 'ethical investor' phenomenon, where socially aware investors purchased shares in the firm because of its expenditure on pollution related activities.

Belkaoui's study was severely criticised on a number of fronts by Frankle and Anderson (1978). Firstly, they argued that the market model parameters should not have been estimated over the test period, and that the technique employed was inappropriate as it was designed for another purpose; '… to ascertain if the securities' residuals over the period of study act in an abnormal way' (p.78). Secondly, no attempt was made to determine if the results were influenced by confounding events around the announcement period, such as changes in earnings, alterations in dividends, or variations in beta. Thirdly, the methodology employed did not control for possible industry effects in order to produce residual variances which reflected only firm specific risks. Fourthly, although a control group was selected, Belkaoui failed to use it appropriately as a comparison; that is to say, he compared the disclosure group with the market without eliminating the industry effects on the residuals. Finally, and more significantly, by reworking Belkaoui's data, Frankle and Anderson (1978) found a *negative* association between disclosure and share price movement.

This criticism of Belkaoui (1976) was followed up with a separate study by Anderson and Frankle (1980) in which they sought to address the problems that they had identified and to further test for the existence of the 'ethical investor' phenomenon. They conclude that, on balance, the evidence supports the notion that the market values social information, and adds credence to the existence of the 'ethical investor' (p.477).

Anderson and Frankle's (1980) study mirrored an earlier investigation by Ingram (1978)[77] who had approached the subject from an explicitly decision - useful standpoint, analysing the information content of voluntary disclosures in an attempt to '...provide insight into the possible effect of signals derived from a formal measurement and reporting system' (p.270). Like Anderson and Frankle (1980), Ingram (1978) relied on assumptions about efficient markets and the CAPM to construct his research design, and his sample was taken from the Ernst and Ernst (1971 - 1976) database. In doing so he utilised four disclosure categories[78]: environmental, fair business, personnel, and product, which were each split according to whether the disclosures were monetary or non-monetary in nature. As in the other studies, portfolios were constructed to test the null hypothesis that there would be no difference in returns between disclosing and non disclosing firms. No significant variances were found. Ingram (1978) then considered two possible explanations for this result: either that the disclosures possessed no information content, or the aggregation processes used in the research design may have averaged out any of the effects for specific subsets of disclosure firms. In order to resolve this dilemma, further tests were conducted to examine industry, earnings, and time effects. In these tests Ingram (1978, using a model developed by Sonquist et al 1971) removed the possible problem of having numerous portfolios where each contained too few securities for meaningful analysis. He constructed a number of subgroups, by way of a 'segmentation' process using a series of binary splits, and then computed excess returns using the simple market model. It was found that all disclosure categories were significant for a specific market segment, although to varying degrees. For example, environmental disclosures were significant for firms with excess earnings in some years[79].

This emphasis on subgroup analysis was developed further by Jaggi and Freedman (1982). They investigated the impact of pollution disclosures by 109 firms from 4 pollution intensive industries by examining monthly average residuals in a period beginning 8 months before and ending 8 months after the disclosure date. Their results

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[77] Ingram (1978) was published at the time that Anderson and Frankle (1980) was going through the review process. Although they state reservations over the Ingram (1978) study and assert that 'further work is needed in this area and are actively pursuing this issue' (p.47), no further papers appear to have been published.

[78] Similar to those suggested by Anderson and Frankle, (1980).

[79] The study by Ingram (1978) was criticised by Ullmann (1985) on the basis that his market segment variables '...are inductively created and not based on ex ante hypotheses' (p.550).

suggest that disclosures have information content which is positively correlated to pollution disclosures.

Subsequent investigations have moved away from the Ernst and Ernst data set and studied other information sources about environmental events. For example, Shane and Spicer (1983) set out to investigate the information content of social disclosures by conducting an event study using the date of release of pollution expenditure information by the Council on Economic Priorities (CEP) as the event to be investigated. The study was conducted in this way in order to resolve some of the conflicting results of other studies which examined the usefulness of social disclosures whether by surveying investors (Longstreth and Rosenbloom, 1973, Buzby and Falk, 1978, Epstein and Freedman, 1994, Goodwin et al., 1996, Deegan and Rankin, 1997) or by conducting association tests between 'social performance' and accounting numbers or share price data (Bragdon and Marlin, 1972, Bowman and Haire, 1975, Vance, 1975, Alexander and Buchholz, 1978, Spicer, 1978a, 1978b, Trotman and Bradley, 1981, Cochran and Wood, 1984, Belkaoui, 1991, Jaggi and Freedman, 1992, Pava and Krausz, 1996).

Shane and Spicer (1983) argued that a major problem in prior studies was the *voluntary nature* of the social disclosures made. They suggested that without mandatory standards of reporting for firms, difficulties relating to inconsistency in published data and non-comparability of information disclosed made sample testing problematic. By using externally produced information, it was hoped that these problems might be overcome, and that comparisons between firms would be more meaningful. Shane and Spicer (1983) investigated whether investors' perceptions of company performance might be affected by this third party information in two ways: by revealing a 'disclosure' effect, and a 'regulatory' effect. In the former case the disclosures might either have a positive or negative impact on share prices depending on whether the signal received was 'good news' or 'bad news'. Good (bad) news related to a CEP pronouncement that a company was closer to (further from) compliance with regulations than investors had previously believed. The 'regulatory' effect referred to the perception by investors that the disclosure of such information by the CEP would be sufficient to bring forward calls for increased regulation, and stricter sanctions on firms.

Because the CEP reports are released with a fanfare of publicity and a good deal of comment in both the *New York Times* and *The Wall Street Journal* on publication, Shane and Spicer (1983) constructed a research design based around two sets of events, the first at the time of the initial publication of the CEP reports and thereafter, at the time of a subsequent, or follow-up report. Only firms that were included in both the initial and the follow-up reports were included in the sample; certain companies which released other price sensitive news were also screened out. Share price data over the six day period from t - 4 to t + 1 were examined and abnormal returns calculated[80]. These abnormal returns were negative on the two days prior to the information release, and possible reasons for this finding were discussed, ranging from the effect of the press releases on the day prior to publication, to the effect of cross-sectional dependence on the statistical results. However, the authors concluded that the information releases did adversely affect share prices. This was particularly so in the case of the initial reports suggesting that investors were uncertain about the news, and in the case of the worst polluters, suggesting that investors reassessed the possible regulatory implications of non-compliance on the future cash flows of their respective firms.

The results of these studies are inconclusive for all the reasons highlighted and also as discussed in Chapter 4. The time lapse since the last Ernst and Ernst data were current, the mid 1970s, suggests that there is little likelihood of further work on that data set being undertaken.

5.4 Model Development

However, the absence of UK studies sets up a challenge for UK researchers to examine whether or not it is possible to determine some of the sought for associations found to be inconclusive in the US studies. To effectively do this a source of UK data is necessary, and an appropriate set of tests designed to test some of the broad issues noted above, but addressing the specific relationship between market returns and social disclosures.

In fact, a database of UK disclosures already exists at the Centre for Social and Environmental Research (CSEAR), now based at the University of St Andrews. Using

[80] The method was developed from the work of Brown and Warner (1980), Jaffe (1974), Mandelker (1974), and Patel (1976).

this database, a series of tests were deployed to examine the data both cross-sectionally and longitudinally. These issues are now discussed in greater detail.

5.5 The CSEAR Database

The construction of the database of social and environmental disclosures held at the Centre for Social and Environmental Accounting Research (CSEAR) began in 1990. It began with a pilot study using data collected by content analysis from the Annual Reports of the 'Top 100' companies (as identified in *The Times 1000*) from 1979-1987. Drawing from the experience of the pilot study, a new sample of companies from 1988 was then collated using additional fields to allow for more detailed analysis. This database, which has been used in a number of prior studies (Gray et al., 1995b, Gray et al., 2001) is updated for this current investigation to include a full 10 years of data from 1988 to 1997[81].

Briefly, each record in the database represents the social and environmental disclosures of one 'Top 100' company in its annual report for a particular year. Each record comprises 97 fields covering, as far as possible, all categories of such disclosures, identified by a series of decision rules outlined in Gray et al. (1995a) and developed from prior literature (Ernst and Ernst, 1976 et seq.). These categories are i) the environment, ii) the employees, iii) the community and iv) the customer. Each category contains sub-categories allowing for a finer analysis if required. For example, under the environment category information may be found on energy use and sustainability, and under the community category initiatives on social involvement and sponsorship may be found. These disclosures, measured as the percentage of each page in the annual report are collected as volumes of disclosure then aggregated into totals for each category. The database further distinguishes between voluntary and mandatory disclosure. This is an important distinction, since legislation and accounting conventions may exhort a company to include certain disclosures, e.g., employee (director's) remuneration, and thus increase the overall level of social disclosure, but only in line with all other companies.

81 See Gray et al. (1995b) and Gray et al. (1995a) for a detailed discussion of how the database was constructed and how it can be interrogated to examine disclosures by companies about social and environmental issues.

In this study, the variables chosen for statistical analysis are as follows: the dependent variable is the share return, and the independent variables examined are: total corporate social reporting (CSRTOT), and two of its constituent parts; total voluntary disclosure (VOLTOT), and total environmental disclosure (ENVTOT) (which is also part of VOLTOT). It is acknowledged that the CSRTOT variable includes not only all voluntary disclosures but also social disclosures which are mandatory by law or quasi-law. However, by including this variable it is hoped that it offers a greater opportunity to identify statistically significant associations.

5.6 The Samples

The criterion that only 'Top 100' companies are included in the database restricted the initial sample considered in the study. Clearly, over the 10-year period a number of companies moved in and out of the 'top 100', (i) as new companies with large market capitalisation were promoted into the list because of changes in valuation from one year to the next and (ii) as a number of companies disappeared because of merger, takeover or a fall in share value. This meant that over the period under review 168 firms appeared in the sample. Three further criteria were adopted when determining the final sample. First, companies had to be present in the database for at least three of the ten years covered in order to perform some of the longitudinal tests conducted in the paper. Second, share price data had to be available for each company in *Datastream* both for the year before and the year in which the disclosure took place in the financial statements. This additional restriction was necessary so that share returns could be computed. Specifically, returns were calculated for each security according to the identity:

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

where $R_{i,t}$ is the return earned by company i in the year t, $P_{i,t}$ is the price of share i at the end of year t, $P_{i,t-1}$ is the price at the start of the year. The returns were logged to make them more normally distributed (Strong, 1992) and thus better satisfy the assumptions underlying some of the tests that were performed. Finally, details on company size (sales) and sector membership were necessary for some of the empirical analyses which were undertaken and companies where such information was not obtainable were omitted from the investigation.

5.7 The 1st Series of Tests - Annual Share Price Data

After the above criteria were applied to the initial 168 companies, the final sample comprised 100 companies over the ten year period between 1998-1997. This produced 660 observations (CSRTOT, VOLTOT and ENVTOT). Some 41 of the companies had 9 observations in the sample, 10 had 8 observations, 6 had 7 observations and the remaining 43 had 6 or fewer observations respectively in the final analysis. Descriptive details for the sample are provided in Table 5.3.

Table 5.3: Descriptive Statistics for the Annual Data Sample

SECTOR Number (see appendix 1)	SECTOR Name	No. of Firms In sector	No. of Observations	SIZE Mean (£000's)	VOLTOT Mean (pages)	ENVTOT Mean (pages)	CSRTOT Mean (pages)	RETURN Mean	RETURN Std. Dev.
1	Food & Drink, tobacco, brewing Meat, distilling	17	114	4701	1.75	0.56	5.69	0.064	0.210
2	Textiles, cloth, wool, footwear	4	30	1973	1.08	0.66	4.97	0.042	0.540
3	Mechanical and general engineering, motors, plant.	4	33	3410	1.81	0.79	5.56	0.038	0.338
4	Electrical & electrical eng. I.T., telecoms, computers	11	66	4837	1.54	0.55	6.14	0.080	0.255
5	Processing, building materials, paper, metallurgy, printing	10	59	2269	1.28	0.67	5.74	0.019	0.264
6	Chemicals, Oil & Gas, coal, paint, plastics, detergents.	7	59	13813	2.14	1.45	6.47	0.086	0.205
7	Financial and other services, publishing, property, shipping	8	47	3514	1.17	0.57	5.10	0.099	0.288
8	Retail and leisure, motor distribution	17	122	4672	1.93	0.58	5.96	0.042	0.321
9	Pharmaceuticals	3	19	7377	2.81	1.96	8.09	0.068	0.264
10	General Mfg , office equipment, misc. industrial and mixed mfg.	2	13	2935	1.84	1.13	7.73	0.120	0.156
11	Contracting & building	7	35	2940	1.61	0.64	4.70	-0.097	0.390
12	Extractive industries	2	18	3203	2.05	1.52	6.63	0.005	0.335
13	Aerospace & Defence	2	15	6406	1.18	0.39	5.74	0.162	0.398
14	General	6	30	2010	0.97	0.59	5.62	0.005	0.336
All		100	660	4860	1.67	0.75	5.86	0.050	0.301

Note. This Table provides descriptive statistics for the variables employed in the analyses. In particular, the sector name and number are given as well as the size, which is the average turnover value in £m. The mean number of pages devoted to total corporate social disclosure for each company in a sector (CSRTOT) is shown. This total is split into the number of pages devoted to voluntary disclosure VOLTOT) and the number devoted to environmental disclosures (ENVTOT). Finally the mean share return and standard deviation of share returns is shown.

A visual inspection of Table 5.3 reveals that the 100 companies in the sample are not evenly distributed among the 14 sectors analysed; two sectors have 17 firms while three sectors have only 2 constituent companies. The size of company in each sector also varies widely. It ranges from a low of £1.973m in the Textile industry to a high of £13.813m in the Oil & Gas sector while the mean turnover figure was £4.860m for all firms. The typical company in the sample included 5.86 pages of corporate social reporting in its annual report of which 1.67 pages related to voluntary data that were not required to be published under current legislation; most disclosures therefore related to mandatory matters which companies are obliged to publish. This fairly low level of disclosure is common across all sectors although firms in environmentally sensitive industries such as Pharmaceuticals and the General Group (which comprised Reckitt and Colman and Zeneca) had the highest average CSRTOT (8.09 and 7.73 pages respectively) among the sectors studied. Environmental disclosure is fairly small for the sample companies at 0.75 pages and only a few sectors (Pharmaceuticals, Oil and Gas, Extractive Industries and General Manufacturing) have average disclosure levels of more than 1.00 pages devoted to this topic in their annual reports[82]. Finally, average annual returns for the sample firms varied from a low of –0.097 for companies in the Contracting and Building sector to a high of 0.162 for companies in the Aerospace and Defence industry, however, this latter excellent performance should be treated with caution as the sample only related to two firms. The tremendous variety in stock market performance for firms in the different sectors is confirmed by an analysis of the standard deviation figures. Returns were particularly volatile in the Textile sector (STDEV = 0.540) but remarkably stable for shares in the General Manufacturing industry (STDEV = 0.156). Surprisingly, the poor performance of Contracting and Building companies in the sample was associated with relatively high levels of risk (STDEV = 0.390) suggesting that shareholders in these firms fared badly for the particular years which are covered in the analysis.

Overall, this UK data set presents a new opportunity to examine the relationship between corporate social and environmental disclosures and share returns and should provide a useful comparison with the US-based work in the area (e.g. Freedman and Jaggi, 1982,

[82] An increasing number of companies produce stand-alone environmental (and, indeed, social) reports as the period of study progresses. These are excluded from the analysis for a variety of reasons, not least being that the annual report is primarily targeted at shareholders whilst the environmental report is not.

Belkaoui and Karpic, 1989). To date, the absence of a non-US database is probably one of the main reasons for the dearth of any substantial work on this topic in the UK.

Share price data was obtained from *Datastream,* and for this study the share price at the financial year end was used to compute returns.

5.8 The 2nd Series of Tests – Monthly Share-Price Data

Subsequent to the above analysis, and in light of the absence of any evidence of association between annual share returns and the social disclosure variables, which is discussed in detail below, it was decided that a further set of tests should be undertaken using monthly share-price data spanning the period from one month before the company's financial year end to three months following it. It was hoped that this set of tests might uncover whether share returns respond to social disclosures surrounding the announcement date. Thus, the second battery of tests focus more specifically on the 'information content' of the social and environmental disclosures, and consider whether the stock market treats such disclosures as news that is value-relevant for firm's shares (Kothari, 2001).

Share price data was again collected using *Datastream*. However, monthly data were not available for all the sample firms used in the first set of tests. Some companies had to be omitted because the price information was not present for the 'event window being examined. This led to a final sample of 68 companies, revealing 461 disclosures over the same ten-year period: 1998-1997. Descriptive details for this smaller sample are available in Table 5.4.

Table 5.4: Descriptive Statistics for the Monthly Data Sample

SECTOR Number	SECTOR Name	No. of Firms	No. of Observations	SIZE Mean	VOLTOT Mean	ENVTOT Mean	CSRTOT Mean	RETURN Mean	RETURN Std. Dev.
1	Food & Drink	12	75	5448	2.01	0.59	6.07	0.041	0.109
2	Textiles	3	21	1894	0.97	0.85	5.21	0.042	0.121
3	Mechanical Eng.	3	25	3370	2.06	0.89	5.89	0.048	0.151
4	Electrical & Telecoms	8	48	5531	1.59	0.32	5.94	0.015	0.103
5	Processing	5	36	2412	1.51	0.88	5.70	0.021	0.119
6	Chemicals, Oil & Gas	6	53	14965	1.95	1.44	6.49	-0.004	0.131
7	Financials and Services	5	31	3333	1.23	0.30	5.16	0.042	0.116
8	Retail and leisure	11	93	4922	2.21	0.68	6.36	0.057	0.120
9	Pharmaceuticals	4	17	8361	2.86	2.21	8.34	0.078	0.112
10	General Mfg								
11	Contracting & building	3	14	1582	1.72	0.50	4.54	0.208	0.654
12	Extractive industries	1	9	3930	3.63	2.80	8.27	0.048	0.099
13	Aerospace & Defence	1	9	8617	1.32	0.27	5.51	0.137	0.195
14	General	6	30	2010	0.97	0.59	5.62	0.051	0.143
All		68	461	5536	1.84	0.80	6.06	0.044	0.166

An analysis of table 5.4 reveals that the effect of this reduction in the sample size is to further skew the distribution among the 14 sectors considered; only the Food and Drink and Retail and Leisure sectors have more than 10 companies. No company from the General Manufacturing sector is present and Extractive Industries and Aerospace and Defence have only one entry each. However most of the characteristics of the first sample remain the same. The size of the companies in each sector varies widely from a low of £1.894m in Textiles to £14,965 in Chemicals, Oil and Gas. The mean turnover was £5.536m. The mean CSRTOT was slightly higher at 6.06 pages of which VOLTOT was 1.84 pages. Pharmaceuticals continued to have the highest mean CSRTOT at 8.34 pages, but were closely followed by the Extractive Industry sector with 8.27 (although this comprised only one company).

5.9 Chapter Summary

This purpose of this chapter was to advance the research into social reporting and the capital market by developing a research project to test the relationship between share returns and social disclosure in UK companies. A research project was outlined using the CSEAR database of 10 years of social and environmental disclosures by UK Top 100 FTSE companies, with a view to discovering new insights connections that exist.

The sample was described and the tests, using both annual and monthly data, were outlined. In Chapter 6 the statistical examinations are undertaken and results discussed.

Chapter 6

Statistical Analysis

6.1 Introduction

In Chapter 5 the rationale for this statistical study was explained and the model development outlined. This chapter explains how the data were collected and analysed. Two series of tests are undertaken to explore the ways in which share price behaviour might reflect large company disclosures about their environmental and other social activities. The first, using annual share price data, tests possible linear and non-linear relationships between share returns and social disclosures. The second, using monthly share price data tests the possibility that there is a lagged effect of share returns varying around the time of the publication of social information. Adjustment is made for size and industry grouping. Despite these adjustments, and irrespective of how the tests were undertaken, no relationships are found. The chapter concludes by exploring explanations for these (non)findings and suggesting alternative ways of explaining the phenomena of increasing social and environmental disclosure among major corporations.

6.2 Method

Five different tests are conducted to determine whether a link exists between corporate social and environmental disclosures and share returns; these tests help to investigate the questions outlined in Chapter 5.

First, Pearson Correlation co-efficients are calculated which examine the degree of linear association between the variables being studied[83], using the formula:

$$r = \frac{\sum XY - \frac{(\sum X)(\sum Y)}{n}}{\sqrt{(\sum X^2 - \frac{(\sum X)^2}{n})(\sum Y^2 - \frac{(\sum Y)^2}{n})}} \qquad [2]$$

The correlations are estimated between returns and each of CSRTOT, VOLTOT and ENVTOT across the whole sample, for different groupings and for every year from 1989

[83] The Pearson Correlation Coefficient measures the linear association between two variables. Values of the correlation coefficient range from -1 to 1. The sign of the coefficient indicates the direction of the relationship, and its absolute value indicates the strength, with larger absolute values indicating stronger relationships.)

to 1997. Because of the relatively small numbers in several of the industries, three new sectoral categories were constructed for the statistical analysis of the paper Category A includes Mechanical engineering, Food and Drink, General, Retail and Leisure, and Electrical and Telecoms companies; Category B includes Pharmaceutical, General Manufacturing, and Oil and Gas companies; and Category C includes all the other firms. These categories attempted to combine companies from similar industries together while facilitating a policy of differentiating between Groups to the largest extent possible [84, 85].

Second, regression analysis is employed to determine whether there is a linear relationship between company disclosures and share returns. In particular, the following equation was estimated:

$$R_{i,j,t} = \alpha_i + \beta_j \, DIS_{i,j,t} + e_{i,j,t} \qquad [3]$$

where $R_{i,j,t}$ is the annual return for company i in sector j over the year t in which the social and environmental information is disclosed, and $DIS_{i,j,t}$ is the disclosure. The regression is estimated separately; namely for CSRTOT, VOLTOT and ENVTOT across the 14 different sectors spanned by the data. The co-efficients β_j are then examined and tested against the null hypothesis that no relationship exists between the variables being examined.

Third, the analysis is extended by determining whether a non-linear relationship exists between social and environmental disclosures and share returns. Specifically, returns are split into three categories – low, medium and high. Where the share return in the year is less than –0.015 the company is placed in the "low" category, if the return is between –0.015 and 0.015 it is put in the medium category while if the return is greater than 0.015, it is assigned to the high category. These cut-off points were chosen to ensure that the number of observations in each category was large enough to facilitate statistical testing[86]. They were also associated with breaks in the share return distributions based on a visual

[84] Whilst these groupings might appear arbitrary, each sector's constituent companies were examined and then grouped together to form groups as logically consistent as felt possible (See appendix 3 and 4).
[85] In the first series of tests, this sectoral coding resulted in 368 observations in Group A, 92 observations in Group B and 206 observations in Group C. In the second the figures were 271, 70, and 120 respectively.
[86] Based on the cut-off points, in the first series of tests 120 observations were classed as low return, 301 as medium return and 239 as high return firms; in the second series the numbers were: 134,57, and 270 respectively.

inspection of the data set. Each of CSRTOT, VOLTOT and ENVTOT disclosures were also grouped into three categories – small, medium and large – depending on the numbers of pages which were devoted to these issues in the corporate report. For CSRTOT, the small category included those firms with up to 4.00 pages of social and environmental information in their annual reports, the medium category included those companies with between 4.0 and 7.2 pages of social and environmental disclosures in the annual reports and the large category included firms with more than 7.2 pages of such disclosures in their annual report[87]. The cut-off points for the voluntary disclosures were different since such information only represented a small fraction of the total corporate social disclosures provided by companies. In particular, if less than 0.6 of a page in the financial statements was devoted to VOLTOT, the disclosure was categorised as "small", if between 0.6 and 2.08 pages were devoted to VOLTOT, the disclosure was classed as "medium" and if more than 2.08 pages were devoted to VOLTOT, the disclosure was labelled "large"[88] Finally, the environmental disclosures were split into three categories based on another set of cut-off points. If less than 0.10 of a page was given over to ENVTOT matters, the disclosure was termed "small", if between 0.10 and 1.00 pages contained ENVTOT information, the disclosure was called "medium" and if more than 1.00 page of the annual report dealt with ENVTOT issues, the disclosure was labelled "large"[89]. Other cut-off points could have been selected but a graph of each data series suggested that these points highlighted natural breaks which distinguished between different amounts of firms' disclosures.

Fourthly, with the three categories of disclosure – small, medium and large – a chi-square test of association was conducted with the different share return groupings - low, medium and high –:

$$\chi^2 = \sum_{n=1}^{3} \sum_{m=1}^{3} \frac{(O_{n,m} - E_{n,m})^2}{E_{n,m}} \qquad [4]$$

[87] These cut-offs resulted in 214, 248 and 198 companies being classified as small, medium and large CSRTOT disclosers. (2nd series: 138, 171, and 152).

[88] With these cut-off points, some 217 observations related to relatively "small" amounts of VOLTOT information, 258 related to "medium" amounts of VOLTOT data and 185 related to "large" amounts of VOLTOT news. (129,181, and 151).

[89] These cut-off points resulted in 193 small disclosures, 285 medium disclosures and 182 high disclosures. (128, 196, and 137).

where $O_{n,m}$ is the observed frequency for row and columns and $E_{n,m}$ is the expected frequency for row n and column m, based on the null hypothesis of no association. The test is repeated for the three disclosure types – CSRTOT, VOLTOT and ENVTOT and the null hypothesis of no association examined. The strength of this test is that non-linear as well as linear relationships between variables can be uncovered if they are present in the data.

Finally, a General Linear Model was fitted to the share return data to investigate whether interactions between different types of disclosures (CSRTOT, VOLTOT and ENVTOT) either as main effects or as interactions with years in conjunction with size and other selected variables can explain returns. In particular, the following equation is estimated:

Where φ is a constant term, θ_i is a dummy variable for each year, $X_{i,t}$ is the CSRTOT, $Y_{i,t}$ is

$$R_{i,t} = \phi + \theta_l + \lambda X_{i,t} + \gamma Y_{i,t} + \delta Z_{i,t} + \mu S_{i,t} + (\theta\lambda)_t X_{i,t} + (\theta\gamma)_l Y_{i,t} + (\theta\delta)_l Z_{i,t} + (\theta\mu)_{i,t} + \varepsilon_{i,t} \qquad [4]$$

VOLTOT, $Z_{i,t}$ is ENVTOT, $S_{i,t}$ is the natural log of the turnover variable $S_{i,t}$, λ, γ, δ and μ are regression coefficients, $(\theta\lambda)_t$, $(\theta\gamma)_t$, $(\theta\delta)_t$ and $(\theta\mu)_t$ are the interaction coefficients, and $\varepsilon_{i,t}$ is the error term.

The output from this equation in terms of F-statistics and associated p-values should provide a comprehensive picture of whether investors appear to respond to certain social and environmental disclosures for different sized companies in several sectors across various time periods by changing their valuation of a company's share price and altering the return earned.

6.3 Results

6.3.1 Analysis of Annual Return Data

The Pearson Correlation coefficients for the association between annual returns and the amount of corporate social reporting in total and under two sub-categories are reported in Table 6.1[90].

[90] All the analysis was performed with lagged disclosures as well as with the actual disclosures in the year of study. The correlation results with lagged disclosures were slightly better with three significant 115co-efficients being observed (CSRTOT in 1991, VOLTOT in 1990 and ENVTOT in 1990) however one would (footnote continued on next page)

Table 6.1: Pearson Correlation Coefficients Between Annual Share Returns and the Amount of Corporate Social Disclosure

	CSRTOT		VOLTOT		ENVTOT	
	Correlation	p-value	Correlation	p-value	Correlation	p-value
Total Sample	0.021	0.588	0.032	0.418	0.043	0.266
Group A	-0.005	0.922	0.029	0.587	-0.005	0.930
Group B	-0.054	0.608	-0.026	0.806	0.116	0.272
Group C	0.058	0.412	0.031	0.662	0.041	0.560
1989	-0.185	0.122	-0.115	0.341	0.058	0.629
1990	0.121	0.306	0.103	0.388	0.091	0.442
1991	0.041	0.722	0.158	0.171	0.050	0.664
1992	0.175	0.137	0.105	0.375	0.085	0.471
1993	-0.032	0.780	0.031	0.789	0.029	0.799
1994	-0.034	0.771	-0.037	0.750	0.033	0.775
1995	0.070	0.549	-0.105	0.366	0.040	0.734
1996	-0.019	0.873	-0.038	0.750	-0.089	0.453
1997	-0.166	0.198	-0.046	0.724	-0.171	0.185

Note: This table shows the Pearson Correlation Co-efficients between share returns and corporate social and environmental disclosure and two of its components (CSRTOT, VOLTOT and ENVTOT). These correlations are estimated (i) for the whole sample, (ii) for three sectoral groupings and (iii) for each of nine years. Group A consists of sectors 1, 3, 4, 8, and 14, group B comprises sectors 6, 9 and 10, and group C includes sectors 2, 5, 7, 11, 12, and 13.

expect 3.6 out of 36 p-values to be significant at the 10 per cent level when the null hypothesis of “no relationship” holds.

Across the whole dataset, these correlations are positive but very small ranging from a low of 0.021 for CSRTOT to a high of 0.043 for ENVTOT. The test of the null hypothesis that these correlations are equal to zero cannot be rejected at conventional significance levels as the p-values are all greater than 0.05. The clear picture which emerges from this scrutiny of the whole dataset therefore is that no linear association exists between share returns and the different social and environmental disclosures being examined.

This picture is confirmed when the correlations are calculated for the three sectoral categories studied. Indeed, four of these nine correlations are negative suggesting an inverse relationship between share price performance and the volume of disclosure. However, the correlations are small and none are statistically significant. Interestingly though, the largest correlation is achieved by the second group (Chemicals, Pharmaceuticals and General Manufacturing firms) for the ENVTOT variable. These sectors in environmentally-sensitive industries have a positive correlation between the volume of their environmental disclosures and share returns of 0.116 which is nearly twice the size of the next highest correlation of 0.058 reported for CSRTOT. Again though, the p-value of 0.272 is still above the critical value of 0.05 thereby not allowing the null to be rejected.

The final nine rows of Table 6.1 display the correlations and p-values for each year from 1989 to 1997. Again, the overwhelming impression to emerge from a visual scan of these data is that the correlations vary from year to year and across each type of disclosure; for example, they are all positive in 1990, 1991 and 1992, all negative in 1996 and 1997 but both positive and negative in the other four years. The co-efficients are slightly bigger than in the other rows of the Table ranging from –0.171 to 0.175 but still fairly close to zero. Also, a sizeable number of the correlations are negative especially for the CSRTOT and VOLTOT variables, which suggests that an inverse relationship exists between share returns and these variables but none of the negative values are statistically significant however.

Table 6.2 reports the results from estimating Equation [2] for the 14 sectors included in the study; the beta co-efficient is shown as well as its p-value.

Table 6.2: Regression Analysis of Annual Share Returns on the Amount of Corporate Social Disclosure

	CSRTOT		VOLTOT		ENVTOT	
SECTOR	Coefficient	p-value	Coefficient	p-value	Coefficient	p-value
1	-0.041	0.110	-0.009	0.479	-0.016	0.588
2	-0.072	0.580	-0.082	0.487	-0.015	0.907
3	0.042	0.599	0.029	0.492	0.072	0.409
4	0.018	0.621	-0.001	0.948	-0.005	0.895
5	0.026	0.588	0.004	0.890	0.021	0.541
6	-0.001	0.984	-0.002	0.899	0.003	0.918
7	0.063	0.210	0.045	0.104	0.004	0.925
8	0.011	0.761	0.013	0.502	-0.020	0.564
9	0.025	0.791	-0.013	0.650	0.016	0.354
10	-0.059	0.332	0.035	0.249	0.043	0.396
11	0.011	0.906	-0.033	0.564	0.025	0.798
12	0.141	0.153	0.024	0.456	0.035	0.423
13	0.080	0.566	0.084	0.473	0.146	0.532
14	0.052	0.540	0.041	0.554	0.064	0.359

Note. This table presents the results from a linear regression of share returns on each of (i) total corporate social reporting, (ii) voluntary disclosure, and (iii) environmental disclosure. The beta co-efficient and its p-value are shown.

A number of findings emerge from an analysis of table 6.2. First the results of this table are consistent with the findings of Table 6.1 and suggest that modelling a specific linear association between share returns and corporate disclosures on social and environmental issues while allowing for constant term in the relationship does not improve the results which are achieved to any significant extent. The p-values, in some instances, fall to just above 0.10 but are still outside the conventional significance level employed in statistical analyses of financial data (0.05). Second, the reported beta co-efficients are negative in one third of cases and positive in the other two thirds of cases. Thus, no clear-cut conclusion can be reached about the relationship between the social and environmental disclosures and share returns. Third, the sizes of these co-efficients also vary across the sectors and over the three different variables examined – CSRTOT, VOLTOT, ENVTOT. The largest co-efficient for the CSRTOT variable is estimated for the Pharmaceuticals sector (0.141) while for the VOLTOT and ENVTOT variables the largest values are achieved by the Defence industry (0.084 and 0.146 respectively). One conclusion which does emerge is that any analysis of the relationship between share price performance and these three variables possibly needs to consider the importance of (i) sector and (ii) category of disclosure; the variability among the co-efficients reported in Table 6.2 would tend to recommend such an analysis.

Table 6.3 reports the chi-squared statistics which are low and below the limits necessary to reject the null hypothesis. The chi-squared statistics in Table 6.4 investigate whether a non-linear relationship is present among the whole data set being studied which was not detected by the linear analysis repeated in Tables 6.1 and 6.2.

Table 6.3: A Test of Non-Linear Relationships Between Annual Returns and Corporate Social Disclosure

Panel A	Quantity	Return				
		Low	Medium	High	Total	
	Small	44	95	75	214	
CSRTOT	Medium	43	108	97	248	
	Large	33	98	67	198	$\chi 2$ = 2.934
	Total	120	301	239	660	p-value = 0.569

Panel B	Quantity	Return				
		Low	Medium	High	Total	
	Small	42	95	80	217	
VOLTOT	Medium	45	124	89	258	
	Large	33	82	70	185	$\chi 2$ = 1.191
	Total	120	301	239	660	p-value = 0.880

Panel C	Quantity	Return				
		Low	Medium	High	Total	
	Small	37	76	80	193	
ENVTOT	Medium	55	132	98	285	
	Large	28	93	61	182	$\chi 2$ = 6.050
	Total	120	301	239	660	p-value = 0.195

Note: This table shows the distribution of observations according to their share returns and social and environmental disclosures. A χ^2 test of the null hypothesis of no patterns in the distributions of observations across groups is also provided. Share returns are designated 'low' if they are less than –0.015; 'medium' if between –0.015 and 0.015; and 'high' if over 0.015.

The hypothesis that “large” disclosures of social and environmental information in annual reports are associated with “high” returns because investors value such disclosures can be studied by looking at the different panels of this table and by examining their associated chi-squared statistics. No relationship, either linear or non-linear, however, emerges from an analysis of the findings. The actual number of observations in each cell does not differ from its expected value under the null hypothesis of no relationship. The chi-squared statistics are all low and below the limits necessary to reject the null. For example the $\chi 2$ values of 2.934 in panel A, 1.191 in panel 2, and 6.050 in panel 3 are all too small to reject the null hypothesis of no relationship.

The same analysis is repeated for the observations in each sectoral grouping and the observations in each year and the results shown in Table 6.4. For the three groupings, the chi-squared values range from 0.943 (with a p-value of 0.918) to 7.292 (with a p-value of 0.121) which fail to reject the null hypothesis of no (linear or non- linear) association between the groupings based in returns and the categories based on disclosure for each of CSRTOT, VOLTOT and ENVTOT. A similar conclusion can be drawn when the data are analysed for each year from 1989 to 1997. One chi-squared value (7.821) for CSRTOT in 1989 has a p-value that is just significant at the 10 percent level ($p = 0.098$) but with 27 chi-squared tests, one would expect just under 3 false positives for this analysis. The remaining 26 chi-squared test statistics have p-values which suggest no relationship between share returns and the disclosures being investigated in this paper.

Table 6.4: Chi-Squared Test Statistics for the Association Between Annual Returns (Small, Medium, Large) and the Amount of Corporate Social Disclosure

	CSRTOT		VOLTOT		ENVTOT	
	Chi-Squared	p-value	Chi-Squared	p-value	Chi-Squared	p-value
Total	2.934	0.569	1.191	0.880	6.050	0.195
Group A	1.479	0.830	1.156	0.888	7.292	0.121
Group B	5.209	0.267	3.081	0.544	0.814	0.937
Group C	6.411	0.170	0.943	0.918	7.213	0.125
1989	7.821	0.098	2.635	0.621	2.280	0.684
1990	0.875	0.928	1.472	0.832	3.002	0.558
1991	3.126	0.537	4.831	0.305	3.089	0.543
1992	6.364	0.174	1.697	0.791	2.559	0.634
1993	1.642	0.801	6.743	0.150	0.910	0.923
1994	2.035	0.729	3.202	0.524	4.192	0.381
1995	2.031	0.730	3.061	0.548	5.133	0.274
1996	3.383	0.496	3.856	0.426	5.089	0.278
1997	1.529	0.466	1.194	0.879	0.988	0.912

Note: This table summarises the results of Chi-squared tests of association between annual share returns and corporate social and environmental disclosures (CSRTOT, VOLTOT and ENVTOT), (i) for the whole sample, (ii) for three sectoral groupings and (iii) for each of nine years. Group A consists of sectors 1,3,4,8,and 14, group B comprises sectors 6, 9 and 10, and group C encompasses sectors 2, 5, 7, 11, 12, and 13.

Table 6.5 contains the statistical output from estimating the General Linear Model in Equation [4]. The F-ratios for the main individual effects are shown as well as the two factor interactions with a dummy variable for the year (YEAR). Specifically, the first column of Table 6.5 shows the source of any variation in the returns that is examined, the second column highlights the 'sum of squares' that is explained by each source, and the third column supplies the F-ratio statistic for the test of the null hypothesis that the source variable has significant explanatory power in the General Linear Model. The final column in the table contains the p-value for each F-ratio and indicates whether the ratio is above the critical level at the 95 per cent confidence level (when $p<0.05$).

Table 6.5: Output from Fitting a General Linear Model to Explain the Annual Share Return Data

Source	Sum of Squares	df	F ratio	p-value.
Intercept	0.134	1	1.651	0.199
YEAR	1.526	8	2.347	0.017
CSRTOT	0.042	1	0.522	0.470
VOLTOT	0.001	1	0.012	0.912
ENVTOT	0.028	1	0.343	0.558
SIZE	0.188	1	2.308	0.129
YEAR * CSRTOT	1.127	8	1.733	0.088
YEAR * VOLTOT	0.951	8	1.463	0.168
YEAR * ENVTOT	0.648	8	0.996	0.438
YEAR * SIZE	1.595	8	2.454	0.013
Error	49.889	614		
Total	61.342	659		

The main conclusion to be drawn from this table is that the returns earned by our sample firms vary over time; the F-ratio for the year variable has a value of 2.347 and a p-value of 0.017. None of the other main effects are significant since the F-ratios are small and the p-values greater than 0.05. Once the interaction terms are studied the year of disclosure for voluntary corporate social reporting information is marginally significant (at the 10 per cent level) but it seems as if the main influence on returns is time. By adding the other disclosure variables and size the adjusted R^2 for the model only reaches 10.4 per cent indicating that some 89.6 per cent of the cross-sectional variation in the returns of the firms being studied remains unexplained by the model.

6.3.2 Results for the Monthly Returns Data

The Pearson Correlation coefficients are reported in table 6.6. Across the whole sample the correlations are again very small ranging from a high of 0.035 for CSRTOT to -0.016 for ENVTOT. As with the 1st data series the p-values are all greater than 0.05, and therefore the test of the null hypothesis that these correlations are equal to zero cannot be rejected. Again the conclusion to be drawn from the analysis is that there is no linear association between the monthly share returns at the time of the disclosures and the categories of social and environmental information examined.

Table 6.6: Pearson Correlation Coefficients Between Monthly Share Returns and the Amount of Corporate Social Disclosure

	CSRTOT		VOLTOT		ENVTOT	
	Correlatio	p-value	Correlatio	p-value	Correlatio	p-value
Total	0.035	0.458	0.013	0.784	-0.016	0.725
Group A	0.036	0.550	-0.013	0.833	0.038	0.534
Group B	0.315	0.008**	0.174	0.149	0.096	0.430
Group C	-0.028	0.762	0.020	0.826	-0.076	0.410
1989	0.263	0.063	0.222	0.118	-0.071	0.622
1990	-0.082	0.565	-0.046	0.749	-0.008	0.954
1991	-0.073	0.603	-0.029	0.834	-0.087	0.537
1992	0.099	0.494	0.107	0.462	0.024	0.871
1993	-0.105	0.450	-0.009	0.947	-0.192	0.163
1994	-0.009	0.946	-0.077	0.582	0.343	0.012**
1995	0.192	0.164	-0.013	0.927	-0.056	0.685
1996	-0.009	0.951	-0.115	0.420	-0.083	0.564
1997	-0.074	0.639	-0.181	0.247	-0.119	0.449

Note: This table shows the Pearson Correlation Co-efficients between share returns and corporate social and environmental disclosure and two of its components (CSRTOT, VOLTOT and ENVTOT). These correlations are estimated (i) for the whole sample, (ii) for three sectoral groupings and (iii) for each of nine years. Group A consists of sectors 1, 3, 4, 8, and 14, group B comprises sectors 6 and 9, and group C includes sectors 2, 5, 7, 11, 12, and 13.

** Significant at 5%

When the findings for the sectoral groupings are examined, only Group B has positive correlations across the 3 categories. Group C has negative correlations for both CSRTOT and ENVTOT (0-0.028 and –0.076), while Group A has a negative correlation for VOLTOT (-0.013). Once again the highest correlation occurs in Group B for the CSRTOT variable (0.315), and the p-value of 0.008indicates that the association between the category of disclosure and monthly share return in this instance is statistically significant. However, this result should be treated with some caution as the reduction in the sample size has meant that there are no companies left in Sector 10, General Manufacturing; therefore this significant correlation result results only applies to Sectors 6 and 9, (Chemicals Oil and Gas, and Pharmaceuticals), which are acknowledged to be environmentally sensitive industries. When the VOLTOT and ENVTOT are examined for Group B the correlations are very small at 0.174 and 0.096 with p-values of 0.149 and 0.430 respectively.

When the correlations are examined separately for each year the findings are largely negative with only 1992 revealing positive correlations across all three disclosure categories. In all of the cases the figures generally are very small with no p.value less than 0.05. An exception to this generalisation concerns the correlation between ENVTOT and monthly returns for 1994. This correlation of 0.343 was the lowest reported in the table and its p-value of 0.012 is well below the critical value of 0.05. The next two lowest correlations of 0.263 and 0.222 are documented for 1989 in the CSRTOT and VOLTOT columns. If anything, the results suggest that correlations are generally more negative as the 10-year period progresses indicating that investors are not responding more favourably to the social and environmental data that is being published.

Table 6.7 reports the results from estimating Equation [2] for the 13 sectors studied with the monthly return series. An analysis of the results reveals the following points. Firstly, the results reported in Table 6.7 are consistent with the findings of table 6.6. The p-values across the 39 data sets are significant at the 5% level in only one case (CSRTOT), and at the 10% level in two further cases, (one in CSRTOT and one in ENVTOT). In the main, the p-values are nowhere near the levels needed for statistical significance levels. Consistent with table 6.6 the significant finding at the 5% level is in the pharmaceutical sector. The other p-values that were less than 0.10 were in the General Sector (14) for CSRTOT, and in the Electronics and Telecom Sector (4). Secondly, the reported beta co-efficients are negative in over half the instances. The sizes of these co-efficients also vary across sectors and over the 3 variables. The largest co-efficient for CSRTOT is estimated for the Pharmaceutical sector (9) (0.019), whilst for the VOLTOT and ENVTOT the largest values are in the Contracting Sector (11) and the Electronics and Telecom Sector (4), at 0.069 and 0.034 respectively.

Table 6.7: Regression Analysis of Monthly Share Returns on the Amount of Corporate Social Disclosure

	CSRTOT		VOLTOT		ENVTOT	
SECTOR	Coefficient	p-value	Coefficient	p-value	Coefficient	p-value
1	-0.001	0.893	0.005	0.528	0.011	0.507
2	0.000	0.969	-0.016	0.596	-0.029	0.369
3	-0.001	0.957	-0.035	0.103	-0.023	0.583
4	0.001	0.876	-0.001	0.877	0.034	0.095*
5	0.005	0.595	-0.008	0.672	-0.009	0.605
6	0.007	0.219	0.010	0.451	0.008	0.646
7	0.002	0.732	0.003	0.851	0.011	0.756
8	-0.001	0.826	0.001	0.874	-0.001	0.940
9	0.019	0.007**	0.008	0.511	0.002	0.768
10						
11	-0.013	0.898	0.069	0.653	-0.112	0.726
12	-0.004	0.626	-0.002	0.865	-0.002	0.936
13	-0.010	0.734	-0.051	0.522	-0.321	0.102
14	0.017	0.084*	-0.025	0.398	-0.018	0.539

Note. This table presents the results from a linear regression of share returns on each of (i) total corporate social reporting, (ii) voluntary disclosure, and (iii) environmental disclosure. The beta co-efficient and its p-value are shown.

* Significant at 10% ** Significant at 5%

Table 6.8 reports the chi-squared statistics, and again they are all low and below the limits necessary to reject the null hypothesis. Table 6.9 reports the results when the analysis is repeated across the 3 Groupings and all 9 years. For the 3 Groupings the chi-squared values range from 1.599 (with a p-value 0f 0.811) to 10.093 (with a p-value of 0.039). Although this value is statistically significant it should be remembered that this Grouping comprises only 2 sectors, Chemicals Oil and Gas (6), and Pharmaceuticals (9). When the yearly data is analysed one chi-squared value for ENVTOT (10.597) in 1994 has a p-value of 0.031, significant at 5%, and there is one additional value in 1990 that is significant at 10%. Other values significant at 10% are found in CSRTOT for 1992, 1994, and 1996. The remaining chi-squared test statistics have p-values that suggest no relationship between share returns and the disclosures being investigated in this study.

Table 6.8: A Test of Non-Linear Relationships Between Monthly Returns and Corporate Social Disclosure

Panel A		Return				
		Low	Medium	High	Total	
	Small	45	17	76	138	
CSRTOT	Medium	52	19	100	171	
	Large	37	21	94	152	$\chi2$ = 2.912
	Total	134	57	270	461	p-value = 0.573

Panel B		Return				
		Low	Medium	High	Total	
	Small	36	14	77	129	
VOLTOT	Medium	56	20	105	181	
	Large	40	23	88	151	$\chi2$ = 2.105
	Total	134	57	270	461	p-value = 0.716

Panel C		Return				
		Low	Medium	High	Total	
	Small	41	16	71	128	
ENVTOT	Medium	53	51	122	196	
	Large	40	20	77	137	$\chi2$ = 2.444
	Total	134	57	270	461	p-value = 0.655

Note: This table shows the distribution of observations according to their share returns and social and environmental disclosures. A χ^2 test of the null hypothesis of no patterns in the distributions of observations across groups is also provided.

Table 6.9: Chi-Squared Test Statistics For The Association Between Returns (Small, Medium, Large) and the Amount of Corporate Social Disclosure

	CSRTOT		VOLTOT		ENVTOT	
	Chi-Squared	p-value	Chi-Squared	p-value	Chi-Squared	p-value
Total Sample	2.934	0.569	1.191	0.880	6.050	0.195
Group A	1.841	0.765	2.450	0.654	2.259	0.688
Group B	3.465	0.483	10.093	0.039**	1.590	0.811
Group C	3.886	0.422	2.540	0.637	4.099	0.393
1989	2.069	0.723	0.388	0.983	5.769	0.217
1990	5.180	0.269	3.899	0.420	9.178	0.057*
1991	3.253	0.516	4.728	0.316	4.708	0.319
1992	8.348	0.080*	1.657	0.799	2.446	0.654
1993	2.239	0.692	1.999	0.736	3.715	0.446
1994	8.355	0.079*	2.493	0.646	10.597	0.031**
1995	1.760	0.780	3.049	0.550	2.025	0.731
1996	7.951	0.093*	3.032	0.553	0.518	0.972
1997	2.377	0.305	2.855	0.582	0.899	0.925

Note: This table summarises the results of Chi-squared tests of association between share returns and corporate social and environmental disclosures (CSRTOT, VOLTOT and ENVTOT), (i) for the whole sample, (ii) for three sectoral groupings and (iii) for each of nine years. Group A consists of sectors 1, 3, 4, 8, and 14, group B comprises sectors 6 and 9, and group C encompasses sectors 2, 5, 7, 11, 12, and 13.

*Significant at 10% level ** Significant at 5% level

In summary, despite some statistically significant results being found, they are no more than might be expected and given the reduced sample size the y do not alter the position that the null hypothesis should not be rejected.

Table 6.10 contains the statistical output from estimating the General Linear Model from Equation [5] as above. Using this data, once again the evidence is that returns vary over time; the F-ratio for the year variable has the value of 2.267 and a p-value of 0.022. None of the other effects are significant, with small F-ratios, and all p-values are over 0.05. The R^2 for the model only reaches 2.5%.

Table 6.10: Output from Fitting a General Linear Model to Explain the Monthly Share Return Data

Source	Sum of Squares	df	F ratio	p-value.
Intercept	0.394	1	14.616	0.000
YEAR	0.489	8	2.267	0.022
CSRTOT	0.045	2	0.836	0.434
VOLTOT	0.058	2	1.081	0.340
ENVTOT	0.028	2	0.514	0.599
SIZE	0.044	1	1.631	0.202
YEAR * CSRTOT	0.194	15	0.479	0.951
YEAR * VOLTOT	0.226	16	0.524	0.935
YEAR * ENVTOT	0.385	16	0.891	0.580
YEAR * SIZE	0.166	8	0.771	0.629
Error	10.526	390		
Total	12.735	460		

Note: This table presents the results from an analysis of co-variance of share returns on the factor YEAR, on the three covariates total corporate social reporting, voluntary disclosure, environmental disclosure, and on the interactions between YEAR and each of these covariates. The adjusted R-squared value is 2.5 percent.

6.4 Discussion

In Chapter 5 it was noted that in contrast to the overall number of studies investigating the relationships among social disclosure, social performance and economic performance few published studies have explored the relationship between social and environmental disclosures and market performance. One of the reasons suggested was that the data sets, such as those employed in the Ernst and Ernst (1976 et seq.) studies, were no longer current thus requiring significant investments in time and effort in data gathering on the part of the researcher. The results of the first set of tests reported in this chapter suggest further reasons for this state of affairs. Most obviously, as discussed in Chapter 4, conventional events studies are problematic, and those undertaken using product recall or criminal charges as the event under examination fail to capture any of the positive signals to the market that might be suggested by increasing social disclosure over time. In addition, the most obvious difficulty in using an event study to look at this phenomenon relates to the plethora of other announcements made by companies which are almost certain to have far greater price-sensitivity than the disclosures here examined. Consequently, other means have been explored to try to establish associations between the market returns and the *predisposition* of companies to undertake social and environmental disclosure. The assumption had been that annual data might well be sufficient to expose a relationship if, indeed, it exists. This proved not to be the case. Such a finding prompted a further series of tests to be undertaken. In all fourteen separate statistical tests were applied to the data looking at the possibility of lagged reactions/associations and also controlling several of the variables. Monthly data was then used for the longitudinal and cross-sectional tests, and also for the four months surrounding the financial year end to see if this might reveal the relationship. Again, this proved not to be the case.

6.5 Chapter Summary

In this Chapter the data was tested. The CSEAR Database was utilised to obtain data on the ‘Top 100’ companies in the UK for the period 1988 -1997. From this data set an initial sample of 100 companies from the 168 that appeared throughout the 10 year period was selected, all of which has been in the ‘top 100’ for at least 3 years, to allow for share returns to be computed for at least two years of the period under investigation. Annual share prices data were obtained from *Datastream* and returns computed. A series of five statistical tests were conducted on the data to test for linear and non-linear associations between share returns and categories of social and environmental information aggregated from the database. No statistically significant associations were found. In exploring the possible reasons for this it was felt that annual share returns might not be specific enough to reveal any possible association, so a further series of tests were undertaken on a new (reduced) sample of 68 companies using monthly share return data for the four months spanning the period from one month before the financial year end to three months after that date, to see if the publication of the annual report could spark any association. Again, no statistically significant association was found.

What these results highlight is the continuing lack of clear theory to explain the putative relationship between a company's market performance and its social and environmental disclosure decisions. Whilst many theories could be adduced to in an attempt to explain why either investors do or do not respond to social and environmental disclosures or why higher disclosing companies are, or are perceived to be, a better economic prospect by financial market participants there are no clear reasons to any choose one which might best explain these findings. On the basis of these tests, it would be ambitious to draw any conclusions on the grounds that (a) it is difficult to be certain that an absence of results means an absence of effect and (b) explaining an absence of results inevitably involves a greater degree of speculation.

The purpose of the studies above, simply stated, was to examine the data to see if i) there was a linear numerical association between share returns and social and environmental disclosures (the Pearson Correlation tests); ii) share returns were influenced by such disclosures (the regression analysis); iii) there was a non-linear relationship (the chi-squared tests); and iv) if returns were influenced by disclosure values, the size of the companies, and the year of disclosure, and the interaction between these variables (the general linear model). These tests were undertaken firstly, using annual data, and then repeated using monthly data. Whilst it seemed unlikely, in the light of previous studies, that any significant relationships would be found, some weak associations were identified such that further investigation was thought warranted.

In a subsequent investigation, Murray et al (2006) conducted two more tests on the data, where the share returns of each company were ranked, and the fractional rank of each company expressed as a percentage, and averaged over the years where returns were available, to produce an average percentage rank. This process was then applied to Total Social and Environmental Disclosures, Environmental Disclosures, Voluntary Disclosures, and turnover. This allowed coded values to be re-examined to see whether or not linear relationships could be found. Correlation analysis was undertaken between coded returns and all disclosure variables over the whole period, and in each year, to see if a linear relationship existed. Briefly, using the coded data, the tests revealed significant relationships between companies with high returns and high overall disclosure. What it suggested, rather persuasively, was that, over a period of years, average high returns were associated with average high disclosures.

Of course, any statistical test is subject to limitations. Some were explored in detail in Chapter 4, and the huge variety of variables and choice of proxies means that making any informed generalisation is even more problematic in this area of exploration than in other positivist studies. Equally, all such studies rely on choices in relation to assumptions, measurement, and samples. Reasons to choose to allow a company to remain in the sample, or to reject it, are somewhat normative at best, and at least, open to challenge.

However, the significance of the results of the Murray et al. (2006) study is that, on the question of whether or not spending on the resources necessary to compile and disseminate social and environmental data is injudicious in financial terms, there is evidence that higher returns are related to higher disclosure, and therefore, if such strategies involves extra costs, they may be justified in financial terms. What is difficult to gauge, however, is whether increased disclosure was a motivating factor in investor behaviour during the period of these studies, or indeed whether or not there is a perception in the market that the signals given out by high disclosing companies are ‘good’ signals to the market.

Chapter 7

Rationale for the Interpretative Study

7.1 Introduction

As outlined at the start of this thesis, the overarching research objective within the study is to understand how markets rate social and environmental performance, in order to explore the connections between social disclosure and financial performance, or between companies, markets and sustainability issues, encompassing social and environmental disclosures. Following an extensive literature review in Chapter 4 the case was made for a study to be undertaken looking at the relationship between social and environmental disclosures and market returns, using UK longitudinal data. The results, as already discussed in chapter 6, disclosed a predisposition among higher financially performing companies to have commensurately higher social disclosure, using share returns as the market measure of performance.

As outlined at the end of Chapter 4, the field of research into the associations among social performance, social disclosure and financial performance is dominated by quantitative studies using a wide variety of data sets, and an even wider range of variables and proxies, to the extent that meaningful comparison between and among studies is problematic. These studies developed through a period in the tradition in accounting research which favoured quantitative studies, and replicated more mainstream research, but utilising alternative data sets.

The findings from these studies, at times contradictory, but generally confusing and conflicting, drew me to re-examine my own ontological positioning in terms of research and gave rise to a repositioning of the approach taken to the questions under consideration in this study.

In this chapter, the change in methodological approach is outlined and analysed, and the second study is introduced. The research question remains to understand how markets rate company social and environmental performance, with an emphasis on achieving this by exploring motivations to make social and environmental disclosures through interviews with company executives and market participants. The study uses an interpretive methodology, a hermeneutic methodological framework, to gain a deep understanding of the processes at work in motivating corporate social disclosures. This change in methodological approach is made on two grounds. The first is fundamental and relates to the ontology of the author. This aspect is discussed in the next section. The second relates to the fact that the mechanism of communication between companies and markets on social and environmental issues has been largely ignored in qualitative research, and that that by using fieldwork, useful insights might thereby be gained into a) what information companies are trying to convey to the market, b) what information is being used by market participants, and c) what level of synthesis is achieved.

This chapter is important in the context of the broader thesis for three reasons. Firstly, in proposing an interpretive study, it stands in contrast to the positivistic approach used in the first study and yet explains how some of the results of that study may be used to assist in the sample selection used in the fieldwork. It then goes on to explain why an interpretive methodology is particularly suited to further our understanding of the particular phenomena under examination in this thesis. And finally, it outlines the methods appropriate in pursuing this methodology. In particular, it explains the ontology implicit in undertaking fieldwork investigations the epistemological consequences of that stance.

7.2 Moving to an Interpretive Methodology

Despite the reservations about the general methodological approach employed in the first study the defining features, a UK database and longitudinal data, revealed trends of increasing disclosure which remained at the heart of the research questions in the thesis. I felt that the underlying research questions of the study required further interrogation, and this chapter introduces a change in direction within this thesis, from studying issues of social and environmental disclosures using a positivist epistemology, to envisioning a follow up study taking a qualitative approach to try and understand in more depth, and with greater contextual relevance, what is actually going on within the corporate world.

This change arose because of growing reservations on my part, concerning the value of the *meaning* of the results of statistical studies. There was already a level of frustration at the conflicting nature of the results of previous research, as outlined in Chapter 4, and ably summarised by reference to Griffin and Mahon (1997). In their study they sought to analyse the possible reasons for such a history of conflict and contradiction. In 51 studies they analysed the financial measures used, sorting them into 6 broad categories: profitability (11 measures); asset utilisation (7); growth (13); liquidity (6); risk/market (12) and ‘others’ (20, including another ‘other’ category with 11 measures). Equally, proxies for social responsibility differ between studies, with a wide variation in variables adding to the confusion. The impression left from this review of data choices is that comparability across studies is, at best, problematic, and at worst, inadvisable. The other, inescapable, impression is that the choice of data source is likely to have an effect on the outcome of the study thus, surely, casting doubt on the ‘scientific’ validity of the findings.

What was most trying, however, was the underlying feeling that little insight was being gained into the practice and theory of social disclosure, because it appeared that either the right questions were not being asked, or that if they were, then they were being interrogated in the *wrong* way. Of course, what was happening was that at the roots of my frustration there was a basic ontological conflict.

This awareness of my ontological positioning emerged over time and took a while to identify. It manifested itself in terms of confusion and anxiety about the progress of the study towards offering new insights and the limitations that statistical approaches provided proved frustrating and seemed to add little to the understanding of the phenomena under investigation. Readings of a range of works of philosophy (in particular, Heidegger, 1926/1962, Foucault, 1979, Foucault, 1984a, 1984b, 1984c, Rabinow, 1984, Foucault, 1988, Heidegger, 1988/1999, Gadamer, 1989, Gutting, 1989), and sociology and social theory (for example, Ricoeur, 1974, 1981, Ingram, 1990, Bourdieu and Wacquant, 1992, Layder, 1994, Ingram, 1995), together with a growing critique within accounting (see, for example, Tinker et al., 1982, Christenson, 1983, Laughlin and Puxty, 1983, Puxty and Laughlin, 1983, Hines, 1984, Chua, 1986, Williams, 1987, Hines, 1988a, 1988b, 1989a, 1989b, Williams, 1989, 1992), and calls for more qualitative research (Morgan and Smircich, 1980, Tomkins and Groves, 1983, Boland, 1989, Covaleski and Dirsmith, 1990, Dent, 1991, Llewellyn, 1993), informed what became a period of intense discomfort as I struggled to reconcile the prospect of continuing to use methods of investigation that sat uneasily with this ontological readjustment. Approaching the subject from an interpretive standpoint has also been supported by the perspectives of Denzin and Lincoln (1994), Alvesson and Deetz (2000), and Alvesson and Skoldberg (2000), who provide a rigorous approach to qualitative research, through reflexive methodologies.

Equally, in the tradition of social and environmental accounting, attempts to theorise relationships in society are more likely to be successful by taking an interpretive/discursive approach, basing theory on a view of empiricism which allows for investigations to take a multitude of approaches, to find evidence from which ever quarter it might be located. I also suggest that, if one of the objectives of this study is to theorise relationships of responsible action between corporations and society, then an interpretive approach might more meaningfully highlight how corporate behaviour might be altered to reflect the social and environmental responsibilities it encompasses, and seeks to both alter traditional accounting procedures to capture these activities, and develop new ways of accounting to better reflect changing societal priorities.

7.3 Reflexive Methodology

The choice of a reflexive methodology seemed particularly appealing and appropriate and Alvesson and Skoldberg (2000) posit four streams from which much qualitative research emanates.

Firstly, *systematics and techniques in the research process*, which include grounded theory, ethnomethodology and ethnography. Secondly, *clarification of the primacy of interpretation*, where all research is seen as a fundamentally interpretive activity, and the researcher is aware of the fact; this includes hermeneutics. Thirdly, *awareness of the political and ideological character of the research*, which includes the awareness that the act of interpretation is invariably biased by the social interests of the researcher and the manner in which questions are framed and how the reality is represented and interpreted; this includes critical theory. Finally, *reflection in relation to the problems of representation and authority* offers the notion that the postmodern and poststructural viewpoint calls into question the role of the researching subject and researched object, by decoupling the text both from the author and any external reality.

Whilst a case could be made for adopting any of these approaches, preferences borne out of my own reading and interest shaped my choice and this, coupled with a notion that this method was most appropriate, led me to look more closely at the question of hermeneutics.

Although hermeneutics is not, in itself, a methodology, it does point to an understanding of method which is counter to the conception of scientific method associated with 'logical-empirical' investigations in the social sciences, and in accounting in particular. In adopting the 'scientific' method the aim is to remove any subjective element, any personal judgement, from the investigation. The 'method' becomes the dominant objective, and once perfected, can be applied to any subject; and the only criterion in applying the method is in the correctness of the application; 'one's guide is the method itself, not the subject matter to which it is applied' (Madison, 1988).

This is in sharp contrast to ontological hermeneutics (which are discussed below) where a normative sense of method is applied. Here there is a belief, not in the power of demonstrative reasoning and instrumental rationality, but in persuasive reasoning which, 'far from supplanting personal subjective judgement, or eliminating the need for it, is meant as an aid to good judgement' (Madison, 1998).

In attempting to study phenomena within the social sciences from an interpretive standpoint Bourdieu and Wacquant (1992) suggest there are different varieties of reflexivity, ranging from ethnomethodology and ethnography, to social scientific studies of (natural) science, postmodern sociology, critical phenomenology, and hermeneutics. Bourdieu's own reflexive sociology fits in this space. The common characteristic of these approaches relates to the complexity of the relationship between the processes of knowledge production and the researcher. On the one hand there is a focus on the various means by which knowledge is produced, whether by language, social interaction, theorising, and experience during which empirical material is gathered and presented.

Alvesson and Skoldberg (2000) suggest that such research is characterised by two elements: careful interpretation and reflection. Careful interpretation implies that all inferences of any sort are themselves the *results of interpretation*. This is a theme also explored by Goodman (1978) who stresses the need to deal with the notion of *irreality*, insofar as 'there is no independent access to one true world against which our versions of it can be compared and evaluated.' That is to say that we all have our own version of the world made up of impressions, symbols, images, and words, which we treat as a matter of habit (for a fuller discussion, see Rose (1999)). As such, the implication is that:

> .... the idea that measurements, observations, the statements of interview subjects, and the study of secondary data such as statistics or archival data

> have an *unequivocal* or unproblematic relationship to anything outside the empirical material is rejected on principle. Consideration of the fundamental importance of interpretation means that an assumption of a simple mirroring thesis of the relationship between 'reality' or 'empirical facts' and research results (text) has to be rejected. (Alvesson and Skoldberg, 2000, p.26).

In considering the meaning of reflection, the focus returns to the self, and the influences that bear on the researcher by virtue of associations with others in a research community, wider society, tradition and custom and, of course, language. It is about how one 'thinks about thinking' (Maranhao, 1991), or in the way one assesses the relationship between 'knowledge', and 'the ways of doing knowledge' (Calas and Smircich, 1996).

In attempting to understand the complex interrelationships that might be construed as existing between companies, analysts, institutions, and markets, a series of interviews were envisioned between senior company officials on the one hand and institutional fund managers and analysts on the other. From the results of the analyses of the interviews, the relationship between companies and markets could be theorised and, in particular, the role and effect of CSD could be interpreted from both sides.

The particular method chosen to make these analyses was hermeneutics. In the following section the hermeneutic approach is discussed in general terms and then the development of the 'objective' view is contrasted with the 'alethic' approach suggested by Heidegger, which is developed and discussed below.

7.4 Hermeneutics

The quest for understanding motivates most qualitative research methodologies. In turn, how we come to *understand* depends on how we interpret, and give meaning to, language and action. Hermeneutics is central to this process, defined by Ricoeur (1981) as the 'theory of the operations of understanding in their relation to the interpretation of texts'. But, before moving on to equate action with language, or analysing 'action as text', it is useful to plot the development of hermeneutics from its origins in biblical exegesis, to its role in contemporary social science and philosophy.

The root of the term lies in the Greek *hermēneia*, generally translated as ‘interpretation’, and *hermēneuein,* ‘to interpret’. The origin of these words probably rests with the messenger to the god, Hermes, whose function was to bring to human understanding messages from the gods which would have normally been beyond the ability of human intelligence to decipher. In ancient times, *hermēneuein* had three strands of meaning: to say, to explain, and to translate; each of which may be expressed as ‘to interpret’, yet each which has its own distinct meaning within the act of interpretation., and each distinguishing itself from the other. To *say* means to proclaim, or announce, and in terms of the messages of the gods, this would have been seen as the first act of interpretation. *Explanation* adds the interpretation of meaning to the proclamation; and *translation* gives meaning when the original language may not be one’s own, but may also be appropriate if the style of language used is unfamiliar to the audience. All three might have been part of Hermes’ task as he delivered messages from the gods.

Thereafter, hermeneutics developed as a means of interpreting biblical texts (exegesis), and although the first reference to this activity is probably in 1654 (Palmer, 1969), it is likely that such interpretation dates from biblical times, when scriptures were written on tablets in ancient languages. Biblical exegesis achieved a fresh momentum at the time of the reformation as protestant ministers sought new interpretations to complement their movement away from the teachings of Rome.

The emergence of hermeneutics in philosophy and the social sciences can be traced to a development from a general philological methodology, based on techniques of discovery, to a realisation that the methods employed in interpreting biblical works had relevance to other texts also. The first writer to identify and explore the possibilities presented by this phenomenon was Schleiermacher (1768-1834) who sought to develop a ‘science of linguistic understanding’, and he was followed by Dilthey (1833-1911), who was the first to suggest that the interpretation of human action required an historical understanding, and was also the first to draw a distinction between achieving an understanding of events and expressions (*verstehen),* and obtaining explanatory knowledge *(erkennen).*

It was Heidegger (1880-1976), however, who developed hermeneutics to the position of importance it now occupies, by using the phenomenological approach of his mentor Husserl (1859-1938), towards the question of one’s everyday ‘being in the world’ *(in-der-*

Weld-sein). In doing so, he moved from an epistemological imperative to an ontological approach which grounds hermeneutics in the social sciences as a means of relating phenomena to one's underlying notions of being.

This approach was further developed by Heidegger's pupil, Gadamer (1900-2002), and by Ricoeur (1913-2005), whose combined works inform, either intentionally or not, much of what is written on interpretive methodology today. It was Heidegger who first engaged with the problems he saw in common with positivism, traditional hermeneutics, and phenomenology: the subject-object dichotomy. Heidegger rejected this problematic and instead advocated a position of 'situatedness' and 'belonging' (Skoldberg, 1998), and focused on the place of humans in the world. From this position he felt it would be impossible for any human to approach any question without bringing to it their already felt experiences and knowledge of the world, a *pre-understanding* . This gives rise to the notion of the hermeneutic circle, between pre-understanding and understanding, where one's understanding of a phenomena depends on how one's previous experiences impact on the experience of that phenomena: 'interpretation is never a presuppositionless apprehending of something' (Heidegger, 1926/1962). More bluntly expressed, '..Reality is always already interpreted'(Alvesson and Skoldberg, 2000).

These notions stand in stark contrast to the Anglo-Saxon sociological tradition of the early to mid twentieth century, and may represent one response to the 'toppling of the orthodox consensus' (Giddens, 1984). That it did not become more influential in earlier might be explained in the tardy translation to English of many of the core texts, and reluctance by some to engage with the works of Heidegger, mostly to do with his position in Germany during WW2.

Notwithstanding this, if, as qualitative researchers, we set out to try and understand why human beings behave as they do, then we need to grasp the meaning behind the activities in which they engage. In turn, to give meaning to these activities we need to interpret behaviour with reference to the rules and norms which govern these activities and behaviour. It is in this sense that Ricoeur commends us to view action as text, and interpret it in the same way, applying our historical *pre-understanding* to the current phenomena. How we make sense of metaphors in text, elucidating 'similarity in difference' (Gadamer, 1989), can be applied to our interpretation of action. No better example of this can there be than Morgan's (1997) analysis of organisations, where they are likened to machines, theatres, political systems, etc, and where within each scenario the actors fulfil the behaviour patters relevant to the particular metaphor.

The contemporary relevance of hermeneutics in social science is that it sits with critical theory as a method of analysis actual social realities. Indeed, both offer related approaches which Kelly (1990) suggests are important for three reasons: that each has a history of critique dating since the mid-twentieth century; that in each there is an awareness of historicity; and that each already inspires ethical and political critique in our present climate.

Hermeneutics is open, perhaps, to a wider range of possibilities. It allows us to consider and use our experience, to apply what we have found to be relevant in our being in the world, our being part of the activity of living and working in the world as we know it. From the very beginning a central theme has been the notion that the meaning of a part can only be understood if it is related to the whole. This is often visualised as a circular relationship, giving rise to the hermeneutic circle: the part can only be understood from the whole, and the whole from the part.

Radnitzky (1970) develops the notion of the circle into a spiral, where a part is examined, related to the whole, and with the new insights obtained from that examination, the part is then re-examined, and so on. Ricoeur (1981) suggested a 'hermeneutic arc' between explanation and understanding, oscillating between scientistic and humanistic methods in the social science process, the former mainly structuralist in kind, and the latter mainly hermeneutic. In this way, an element of scientific theory is inserted over and above the humanist interpretation. Ricoeur believed that this was important to prevent hermeneutics from being detached from explanation-orientated, scientific theorising (Alvesson and Skoldberg, 2000). However, the common theme is that hermeneutics present a process of understanding which involves alternating between poles which may, at first sight, seem contradictory or dichotomous.

As the use of hermeneutics developed notions of *empathy* became important in the search for 'understanding'; the ability to 'live' the part of the actor, in order to more clearly understand the act. The notion at play here is that without adopting this as a method it is unlikely that any interpretation made from 'the outside' would fully capture the meaning of an act. The corollary of this is that the interpreter, by adding to this empathy a broader stock of knowledge than agents might have, becomes to understand the meaning of the act better than the agents themselves might.

However, the spectre of a subject/object divide still remained with a sharp distinction remaining between the studying subject and the studied object, hence the term objective hermeneutics. In this form it may be understood as an epistemology for understanding the objectifications of the human mind (Schwandt, 1994). There is an assumption that meaning is object-like, waiting to be discovered, and that hermeneutics offers the discourse which explains the meaning. The hermeneutic circle is seen as a methodological device which provides a means for enquiry in the human sciences (Schwandt, 1994). On the other hand, the philosophical hermeneutics of Heidegger, Gadamer, Ricoeur and Taylor are concerned with ontology. The hermeneutic circle here is an ontological condition of understanding:

> '...(it) proceeds from a communality that binds us to tradition in general and that of our object of interpretation in particular; (it) provides the link between finality and universality, and between theory and praxis' (Bleicher, 1980).

As a result, if the interpretations made seem implausible, or not fully understood by those who question them, then 'there is no verification process we can fall back on. We can only continue to offer interpretations; we are in an interpretative circle' (Tayor, 1987).

In the next two sections I will discuss the approach taken by Heidegger, in developing what Alvesson and Skoldberg refer to as 'alethic' hermeneutics, and thereafter how the work of Ricoeur has been used as a method in accounting research.

7.5 Heidegger and Gadamer

Over the last few decades the renewed interest shown in the works of Heidegger by such writers as Richard Rorty, Charles Taylor, and H.L. Dreyfus in matters of hermeneutics, and the reassessment of their own works as 'hermeneutic' by Geertz, Khun, and Walzer, supports the tendency to return to the original seminal works that have shaped contemporary hermeneutics (for a discussion, see Guignon, 1993).

Heidegger is an example of a philosopher obsessed with a single question: what is the meaning of being? Whilst this is clearly an abstract preoccupation, Heidegger believed that only with this understanding could more complex questions be confronted. He has been described as representing the 'crucial juncture in the philosophical transition from metaphysics to hermeneutics, and the first to present the two as being directly opposed (Grondin, 1995). This is because from his first lectures on the subject his hermeneutics takes the form of a destruction of metaphysics, although the metaphysics envisages by Heidegger is slightly different from the metaphysics of Kant. For Kant, metaphysics meant the kind of thinking that aimed at an *a priori* knowledge of what lies beyond our experience. For Heidegger, metaphysics is seen from the more basic standpoint of viewing one's relationship with the world from one's perspective as part of the world. This is his notion of *Dasein* (being there), and *In-der-welt-sein* (being-in-the-world). Heidegger's view is that all thoughts of 'being' should be considered only from this perspective, not from what he refers to as an 'onto-theological' framework, which he suggests is a general constitution of metaphysics, in that it contains a view on the three approaches: ontological, theological and logical. Heidegger distances himself from the metaphysical approach since it does not address the issue of a human's finitude. It is because we are mortal that we seek to ground *Being* in something whose model is provided by divinity or reason (Grondin, 1995).

It is against this model of metaphysics that Heidegger offers his 'hermeneutics of facticity' which grounds *Being* in relation to the world in which we are, and in relation to our own mortality. Rather than considering man as 'rational', man was in fact, better viewed as a collection of 'feeling', such as guilt, anxiety, etc. In adopting this stance, Heidegger suggests that it is a viewpoint more likely to uncover truth, where he saw truth as being where 'beings-are-let-be', and from this, where true freedom may be reached. Where there is truth, there is freedom, and freedom allows disclosure, or the 'openness of beings'. A key term in this train of thought is the notion of 'uncoveredness', from the Greek *aletheia*, 'the revelation of something hidden' (Heidegger, 1953/1959); and it is from this notion that Alvesson and Skoldberg (2000) derive the phrase *alethic hermeneutics* and propose it as a method of seeking truth through struggling with the trivialities of common sense, rather than by carrying out the test procedures of positivism, or in the stepwise distillation of data as in symbolic interactionism or ethnomethodology, or in the construction of a social object (Bourdieu et al., 2002). Relative to postmodernism the approach is 'restorative rather than deconstructive' (Skoldberg, 1998).

However, it was Gadamer, Heidegger's pupil, who was the first to develop Heidegger's account of interpretation into a general hermeneutics where the central question is: *how is understanding possible*? Whilst this is now seen as a straightforward way of viewing the hermeneutics that Gadamer has, himself, contributed to 20th century philosophy, before Heidegger the question might have been misleading, since hermeneutics might have been seen as just one branch of philosophy, analysing the phenomenon of understanding in contrast to, for example, knowledge or language. Prior to Heiddeger, philosophers did not think of hermeneutics in this way, distinguishing as they did, disciplines that could acquire knowledge in an objective way, as in the natural sciences, from those that could only offer interpretations, as in the social sciences (Hoy, 1993).

It was Heidegger who first engaged with the problems he saw in common with positivism, traditional hermeneutics, and phenomenology: the subject-object dichotomy. Heidegger rejected this problematic and instead advocated a position of 'situatedness' and 'belonging' (Skoldberg, 1998), and focused on the place of humans in the world. From this position he felt it would be impossible for any human to approach any question without bringing to it their already felt experiences and knowledge of the world, a *pre-understanding*. This gives rise to the notion of the hermeneutic circle, between pre-understanding and understanding, where one's understanding of a phenomena depends on how one's previous experiences impact on the experience of that phenomena: 'interpretation is never a presuppositionless apprehending of something' Heidegger (1926/1962). More bluntly expressed, '...Reality is always already interpreted' (Alvesson and Skoldberg, 2000).

These notions stand in stark contrast to the Anglo-Saxon sociological tradition of the early to mid twentieth century, and may represent one response to the 'toppling of the orthodox consensus' (Giddens, 1984). That it did not become more influential in earlier might be explained in the tardy translation to English of many of the core texts, and reluctance by some to engage with the works of Heidegger, mostly to do with his position in Germany during WW2.

Notwithstanding this, if, as qualitative researchers, we set out to try and understand why human beings behave as they do, then we need to grasp the meaning behind the activities in which they engage. In turn, to give meaning to these activities we need to interpret behaviour with reference to the rules and norms which govern these activities and behaviour. It is in this sense that Ricoeur commends us to view action as text, and interpret it in the same way, applying our historical *pre-understanding* to the current phenomena. How we make sense of metaphors in text, elucidating ‘similarity in difference’ (Gadamer, 1989), can be applied to our interpretation of action. A good example of this is Morgan’s (2006) analysis of organisations, where they are likened to machines, theatres, political systems, etc, and where within each scenario the actors fulfil the behaviour patterns relevant to the particular metaphor (Murray, 2008).

7.6 The Poetic Hermeneutics of Ricoeur

Whilst the use of the hermeneutic method has been explored and offered as useful approach in accounting research (see, for example, Boland, 1987, Lavoie, 1987, Boland, 1989, Covaleski and Dirsmith, 1990, Llewellyn, 1993, Oakes et al., 1994), it is Llewellyn (1993) who explains the history and approach of hermeneutics in most detail. In the process of explicating the method, Llewellyn draws on the work of Ricoeur (1974, 1981) whose main thesis is that the understanding of human action can be ‘considered analogous to the reading of a text’. Ricoeur sets up four propositions from which human action can be analysed for the ‘sense-content’:

> *Proposition One:* The sense content of action and text must be drawn out; comprehension cannot be immediate or unmediated
>
> *Proposition two*: The text or the action has both personal and social significance - its social dimension implying the possibility of institutionalization.
>
> *Proposition three*: The text or its action may transcend its encompassment within its initial circumstances and develop meanings in other social contexts.

Proposition four: Textual interpretation and social understanding are both essentially 'open' in nature.

Llewellyn invites us to view these propositions in the light of Giddens's (1984) notion of the 'double hermeneutic'. This explores the idea that, as researchers probe phenomena in the social world, they encounter agents who have already made their own interpretation of reality, by reference to their own lived experiences, beliefs, and values, in their own context, i.e. the setting of the actions (proposition one). This is what Giddens (1984) refers to as 'first-order' constructs. Researchers then develop 'second-order' constructs using their own knowledge and language to interpret these events. However, as proposition four suggests that understanding is 'essentially open in nature', those researched can very easily appropriate the second -order constructs of the researcher, which may then re-emerge as 'first-order' constructs, which then present fresh research material (Llewellyn, 1993).

Following a detailed analysis of the foregoing, she suggests that four implications of such an approach present themselves:

Implication one: Researchers can legitimately offer accounts of events which either differ from or transcend the understandings of agents themselves.
Implication two: The research insights will be generated by the processes of projection and modification. They will reflect a synthesis of the frames of reference of the researcher and the researched.
Implication three: The interpretive research act is a creative endeavour whose inner coherence rests upon the starting point and boundaries which are imposed in the course of research.
Implication four: Hermeneutic research is intrinsically critical as, first, understanding must involve evaluation of actor's self-understanding and, second, actors may appropriate this evaluation and thereby change is enacted.
Llewellyn (1993).

In making her case for the use of hermeneutics in the study of organisational change Llewellyn's (1993) study examined two pieces of management accounting research which involved traditional field studies of organisations undergoing changes one form or another. It highlights the form of knowledge produced under the circumstances where independence is assumed between subject and object, and where work practices are analysed separate from the meanings attributed to them. Without replicating the full thrust of her study here, Llewellyn (1993) is concerned that, implicit within the assumptions of Innes and Mitchell's (1990) analysis of management accounting change, there is an objective reality which is dependent on the use of the correct techniques and methods. She also highlights how Innes and Mitchell (1990) analyse change within the organisation without reference to other changes which happen at the same time and which alter meanings within the organisation; where changes in meaning are seen as consequent to change occurring.

Innes and Mitchell (1990) offer contingency theory as a means of analysis, yet despite acknowledging the shortcomings its use delivers, in terms of its ability to offer only a static analysis, they offer no alternate, more appropriate method to explain the possibility that perhaps the changes observed were brought about by human interaction through changed meanings. There is no discussion within the Innes and Mitchell (1990) paper of changes in cultural or linguistic practices or in the changed meanings of events which confer meaning within a changing environment. Llewellyn (1993) concludes by suggesting that the Innes and Mitchell's (1990) explains why change took place, in terms of preconditions for change, e.g. loss of market share, but offers little to illuminate how change may best be achieved:

> 'The argument advanced here is that any research that hopes to fully illuminate the process of management accounting change must work through an interpretive, if not hermeneutic, methodology in order to demonstrate how change is accomplished through human agency' (Llewellyn, 1993).

The second study that Llewellyn (1993) focuses on is the Dent (1991) paper, in which the cultural change at the highest level altered the focus of the executives from a position where engineering shaped the language and meaning of the organisation to one where the language of business and accounting achieved dominance, where 'business' managers replaced ‘general’ managers. Dent (1991) argued for the adoption of a reflexive methodology, following Geertz’s, (1963) anthropological study, and Burrell & Morgan’s (1979) and Denzin’s (1983) studies of methodological approaches. In the event, he chose an anthropological approach modelled on the work of Malinowski (1922) who sought, as a goal, ‘to grasp the native’s point of view, his relation to life, to realise his vision of the world’. Llewellyn argues that by adopting this specific method the focus was narrowed to such an extent that the search for a ‘full understanding’ of the phenomena was limited.

In the critique of both studies, Llewellyn (1993) highlights the failings of the studies by referring to the propositions and implications referred to above and she uses these propositions and implications as justification why a hermeneutic approach would have given a richer comprehension of the phenomena under investigation. Whilst I do not intend to constantly refer to these propositions and implications in the as the interviews are analysed, it is with the overall hermeneutic turn that the investigation is approached.

It seems clear that the Innes and Mitchell (1990) paper was wide open to this form of methodological critique, and therefore some of the points raised may be viewed as being of limited relevance to other studies, but in respect of the Dent (1991) paper, the relevance of her main contentions would seem to sit easily with qualitative research in social and environmental accounting.

7.8 Chapter Summary

In this Chapter a change in methodological approach was explained and explored. The case for a qualitative study was outlined and qualitative methods were discussed, with particular emphasis on the hermeneutic approach as a means of analysis. This approach was analysed from an historic perspective, focusing initially on the work of Heidegger, Gadamer, and Ricoeur.

The contemporary relevance of hermeneutics in social science is that it sits with critical theory as a method of analysis of social realities. Indeed, both offer related approaches which Kelly (1990) suggests are important for three reasons: *firstly*, that each has a history of critique dating since the mid-twentieth century; *secondly*, that in each there is an awareness of historicity; and *thirdly*, that each already inspires ethical and political critique in our present climate.

What I have suggested in this chapter, however, is that hermeneutics is open, perhaps, to a wider range of possibilities. It allows us to consider and use our experience, to apply what we have found to be relevant in our being in the world, our being part of the activity of living and working in the world as we know it.

The next three Chapters explore this approach further. In the Chapter 8, the research design for the interview series is discussed and developed, and issues of data collection explained. Chapter 9 then examines the issues which have been identified both from the literature and the first study, and the data collected around these issues. In Chapter 9 the results of the interviews are discussed and there is a return to issues discussed in this chapter in the context of the interpretation of these results.

Chapter 8

Fieldwork – Data Collection and Method

8.1 Introduction

In Chapter 7 the move to an interpretive methodology was outlined, the rationale for continuing the investigation by conducting a fieldwork study by way of a series of interviews was explained and, in particular, the nature and origins of hermeneutics, as a theoretical approach to interpretive research, were discussed.

The chapter is structured as follows: The research design of the interpretive study is outlined, and the sources of data and company sampling methods, together with the hermeneutic analytical approach, are explained.

8.2 Interpretive Research Design

As outlined in previous chapters, an examination of the research in the area of social performance and financial performance undertaken over the last 30 - 40 years reveals a predominantly positivistic approach resulting in a history of conflicting results. The comparative absence of fieldwork in thisbor area stands in contrast to other areas of accounting research and is made more surprising by the number of calls for more qualitative research and, in common with general social science research, a move away from the quantitative (Morgan and Smircich, 1980, Tomkins and Groves, 1983, Boland, 1989, Covaleski and Dirsmith, 1990, Dent, 1991, Llewellyn, 1993). A growing interest in qualitative research in management and accounting has also made it easier for researchers to familiarise themselves with the various approaches which might be appropriate in differing situations (see, for example Easterby-Smith et al., 1991, Denzin and Lincoln, 1994, Alvesson and Deetz, 2000, Alvesson and Skoldberg, 2000, Adams and Larrinaga, 2007, Spence, 2007).

Insofar as the main aim of this thesis is to understand if and how markets value company social and environmental activity, the aim of the interpretive fieldwork was to explore this issue from both a company and a markets perspective, through examining the motivations of companies to disclose and the reactions of market participants. In understanding the connections between social disclosure and the capital markets, a means had to be developed which would look at both sides of the disclosure divide, between companies and market participants.

In designing an interpretive research framework, to explore further the connection between social disclosure and market response, and the motivations behind disclosure, a number of objectives were considered. These were, specifically, to i) gain an understanding about what companies perceive to be the purpose and effect of making social responsibility disclosures; ii) discover whether the managers' words match the 'official' disclosures of the company; iii) gain an impression of how values (moral aspects of corporate activity) developed within the organisational culture of the corporation; iv) explore the relationship between companies and markets in matters of non financial performance; and v) obtain a view from 'the other side' of the market mechanism on how important these issues are considered to be in terms of the value of the company.

The particular method of investigation came under scrutiny at this point, and for a number of reasons a questionnaire survey was rejected. Firstly, the problem of sample size and likely response rate gave cause for concern. With only around 130 companies appearing in the 'Top 100 list' over the ten year period, the sample was already smaller than ideal. From that sample size a response rate of even 25% would have brought only 30 or so replies, whereby statistical analysis would be problematic and any notion of generalisation would be less than credible. Secondly, the design and wording of a questionnaire, whilst crucial to the success of the project, cannot be guaranteed to capture the essence of the research question, because of the interpretation by the responder to the questions. In a discussion over how *meaning* can be established, Ingram (1995) reflects that it is:

> '…just our best translation – relative to our own linguistic behaviour - of the causes motivating the highly local and idiosyncratic linguistic behaviour of others. Since 'passing theories' of what others mean by their peculiar malapropisms and novel metaphors suffice for the purpose of translation, we can dispense altogether with the idea of a language, understood as a system of normative conventions.' (p.121)

This, somewhat pessimistic, view of how fitful others' interpretation of our words might be may not hold for all situations, but questionnaires are easily open to misinterpretation. The expectation of a low response rate raises also issues of response bias which are sometimes difficult to dispel and, additionally, the status of the responder can prove difficult to identify. For these reasons a questionnaire survey was not considered appropriate.

Therefore, in order to undertake a meaningful qualitative research project, interviews were seen as the best alternative to gain significant understanding of the issues. In constructing a framework for this study, to be interview based, it seemed logical to concentrate on the theoretical issues from which meaningful discussions might develop. For example, it seemed intuitively unlikely that company managers would have knowledge of the empirical literature, or would be particularly interested in the minutiae of the conflicts and contradictions of empirical research. However, it seemed equally likely that in framing policies of corporate social responsibility, notions of stakeholder management, legitimacy and reputation would be readily understood, as identified and discussed by Gray et al. (1995b), Toms (2000, 2002) and others.

Approaches to the interview content were also shaped by criticisms levelled at previous research. Ullmann (1985), in identifying a theoretical void in the study of the subject, presented a three-dimensional model to explain the correlation among social disclosure and social and economic performance, where stakeholder power is posited as the first dimension. It is suggested that a firm will respond to stakeholder demands, dependent upon the degree of control exercised by the stakeholder over the resources of the firm, and the more critical stakeholder resources are to the continued viability of the firm. The second dimension of the model is the firm's strategic posture towards corporate social responsibility, where this strategic posture can be active or passive. An active posture is suggested to exist where management of a company actively involve themselves with programmes of social responsibility, rather than just to react passively to issues as they arise (see also, Mouritsen et al., 2000). The third dimension is the company's past and present financial performance, which clearly influences the degree to which any programmes of investment may be undertaken. Therefore, the more profitable the company, the more likely it should be to undertake programmes of social responsibility. This is in line with the empirical findings outlined above.

Roberts (1992) designed an empirical test for the Ullmann (1985) model and found that the it was broadly supported; that social disclosures and political donations may be aspects of *stakeholder management* ; that firms with an active strategic posture towards social responsibility tended towards higher disclosure levels, and that prior and continuing good economic performance was linked to higher levels of disclosure.

Gray et al. (1995b) reviewed Lindblom's (1993) model of legitimacy theory which, over the years was tested and discussed by, for example, Patten, (1991, 1992) and Guthrie. and Parker (1989), and the subject was considered from a slightly different viewpoint by Neu, et al. (1998), who considered within the structure of the overlapping nature of stakeholder and legitimacy theories within the broader 'framework of assumptions about political economy'. Neu et al. (1998) found that organisations, faced with conflicting interests, focus on the most important stakeholder group as a means of communicating 'legitimizing characteristics' to the most important 'relevant public'. Whilst not going so far as to suggest that the disclosures were no more than public relations, the part of title of the paper 'Managing public impressions...', again suggests that stakeholder groups might be viewed as no more than just another body within an organisational framework that has to be *managed* in order to allow for the continued smooth running of the organisation.

This notion is further explored by Waddock and Graves (1997b), who agree that strategies of corporate social disclosures may be seen as a response to a variety of stakeholders who either have a vested interest in the performance of the firm, which moves attention away from discretionary activities - philanthropy, etc., towards a range of critical stakeholder relationships as the defining characteristic of corporate social performance, including relationships with employees, customers, communities and the environment. It becomes the quality of these relationships that defines the quality of a company's corporate social performance. This is echoed by Jones (1995) suggesting that if firms attend to the interests of all their stakeholders, their performance encompasses more than financial performance.

In an earlier study Waddock and Graves (1997a) posit a 'slack resources theory' - that slack resources potentially available from a strong financial performance may be available to invest in positive corporate social performance. They may therefore choose to 'do good by doing well', while those companies with tight budgets may find it difficult to justify discretionary spending. They also suggest that financial performance also depends on good social performance suggesting that good management includes good social management, and therefore they 'do well by doing good'.

In an extension of this research, Graves and Waddock (2000) re-examine the data and find a statistical relationship between companies defined as 'Built to Last' (Collins and Porras, 1994), and non BTL companies, concluding that an important aspect in devising a policy of CSP is the alignment of key stakeholders to the policy.

It was obvious also, as previous research was examined, how little fieldwork had been done in the area. Hence the need for interpretative fieldwork, the methodology of which is detailed in the next section.

8.3 Methodology and Method in Fieldwork

Therefore, having chosen to undertake qualitative research using an interpretive methodology, I felt that it was important to select a method of data collection which would capture the data necessary to make informed interpretation of the underlying motivation for (not) undertaking disclosures on sustainable development, social responsibility, and the like. For this reason, a series of semi-structured interviews were envisaged involving market participants, both from the company side, and the analyst/investor side. This form of interview allows the researcher to react to answers to questions, and to raise additional issues as well as to seek clarification or additional information on a particular theme.

In selecting a methodology which would allow for a purposeful analysis of a series of interviews, I wanted to adopt a stance that explicitly recognised the prejudices and biases inherent in this investigation, rather than one which acknowledged an implicit bias in all research approaches. As these prejudices and biases are part of what shapes the attitude of the researcher it is, in my view, important to make clear how they might impact on the outcome of the research process.

Firstly, the interviews were to be approached from a critical angle, in that they were informed by my own ontological position on the companies involved. The companies consenting to interview were all major corporations, holding varying, but consistently powerful influence on policy and the political process (they are all leading players in their respective sectors). In researching the activities of the companies and examining the stance each took to the various social responsibility factors within their organisation, it seems clear that I would form an opinion about the management of the company prior to my visit. Indeed, some of the companies had a long history of causing environmental degradation, pollution, emissions, disease, etc., which is well documented and how change within the company was undertaken formed a central theme of the interviews.

Secondly, researching the companies and individuals within them involved obtaining material from a wide number of sources, some with particular environmental or political bias. Whilst aware of this, I have to recognise that it may reflect my own bias. This 'up front' acknowledgement of research bias influenced by one's socialisation, political and economic background, literature, education, and so forth, is particularly relevant to hermeneutic studies.

Thirdly, since this part of the study is concerned with changes in disclosure practices over a ten year period. In trying to gain an understanding of the processes and conditions necessary to bring about these alterations in practices, I wanted to explore methods of investigation which are suited to this form of study.

8.4 Sourcing Data

In order to try and understand the motivation of managers who decide on corporate social responsibility (CSR) disclosure and performance policies, and how they perceive their activities and disclosure policies affect the value of the company in the market, a series of interviews were arranged with senior managers of FTSE 100 companies. The companies were selected in light of an examination of disclosure policies revealed in the database analysis. Companies with patterns of disclosure which revealed changes, or consistently high or low levels of disclosure were contacted.

The CSEAR database, referred to in earlier chapters, was used to identify disclosure patters which warranted further examination. By examining sectors and individual companies graphs were drawn to reveal disclosure patters over time, and target companies were identified where the pattern of disclosure revealed that: a) the company had traditionally made high disclosures; b) the company had traditionally made low disclosures; or c) the disclosure policy had undergone some form of change over time.

Looking back at the sample of 120 companies used in the first study, 100 appeared in the list for three or more consecutive years. 41 were in for the full period, 10 for eight years consecutively, 6 for seven years, and 43 for six or less. Whilst statistically significant year on year changes were not identified, an examination of graphs displaying disclosure over time revealed visual trends. Although disclosure had increased over the 10 years of the existence of the database, some companies and some sectors were consistently 'high' or 'low' disclosers over time. Others showed a marked increase over the same period, ahead of others in the same sector, and some showed an altered pattern of disclosure over the period.

Selecting the companies for interview presented a number of problems. Issues of access to the desired companies and thereafter to the appropriate level of management are acknowledged areas of difficulty to researchers. So, even if an 'ideal sample' were to be identified, the likelihood of co-operation of all parties seemed problematic. Nevertheless, an examination of the whole sample was undertaken, starting with the 41 companies that had remained in the 'top 100' over the full period of the database, and then looking at the next 10, and so on. From this process, 40 companies were selected as 'being of interest', in that they displayed the characteristics of high, low, or changing disclosure.

Having identified the companies that fulfilled the above criteria, and taking a minimum continuous period of 5 years as the period used to identify the patterns, an examination of current web-sites for each company was made in order to identify the current Chairman and CEO. It seemed important and more likely to result in co-operation, that all request for interviews should reach the current incumbent of the office, and as changes in top management of quoted companies is a regular feature, reference to Annual Reports seemed problematic. The chairman and chief executive of each company were then contacted. A personalised letter was sent to each CEO, with a copy to the Chairman (see Appendix 6). In each letter the nature of the industry and pattern of disclosure of the company was discussed and stress was put on the market focus of the study and its association with non financial disclosures. In each case the request was made for an interview with the CEO (in the event only one interview was held with the CEO). Whilst the emphasis in the letter was in communication with financial markets, and the ideal interviewee would therefore have been the CEO, clearly other company officials are charged with such responsibilities. It was hoped that, at the very least, the letter would be passed to an appropriate official within the company with both knowledge of the reporting function and the market communication process. Of the initial 40 contacted, twelve replied agreeing to be interviewed[91].

On the market side two fund managers managing 'ethical' portfolios were contacted each of whom agreed to be interviewed. The choice of such fund managers was prompted by a desire to discover whether or not the increase in the number of 'ethical' funds roughly over the same period as the database had led to changes in attitudes and approaches by companies[92]. Two other fund managers of traditional funds also agree to be interviewed to discuss the more traditional approach to investment appraisal, and finally, a discussion was arranged with a forum of investment analysts attending a course in technical analysis at the University of the South Bank in London, to see whether, in making their buy/sell/hold recommendations any non financial information was ever brought to bear on their decisions.

8.5 Data Collection

The interviews took place between August 2000 and March 2001 each being held at the office of the participating organisation. A semi-structured approach was chosen, in order that the interviewees were each questioned on the same broad areas, but had the opportunity to express themselves freely, and further discussion was possible thereafter, in light of their replies. The questions were, therefore, designed to be 'open-ended'. Thus, common themes considered important could be explored with each interviewee without any constraint being put on the nature of the answers given.

8.5.1 Data Collection and the 'hermeneutic turn'

In discussing the 'hermeneutic turn' in the social sciences Boland (1989) urges researchers to consider the wider context of the research. This was the approach taken in this research, and the 'broad areas of discussion' were arrived at after much deliberation and with

[91] In addition, a company new to the FTSE 350, which had not formulated a policy of disclosure, was approached and agreed to be interviewed. However, just prior to the interview it went into receivership and the interview did not take place.

[92] The first 'ethical' fund in the UK was established in 1984 where city predicted that the 'ethical' market would never exceed £2m. By May 1992 over £400m was under management, and by June 2000 this figure had risen to £3.3bn. (Kreander, 2001) .

reference to the categories of disclosure found in the CSEAR database, the literature, and also company disclosures across the various media employed by companies. These sources included the statutory and other reports released by the company, as well as extensive research of the company web-sites, press releases and reports, and third party reports by NGO's such as Greenpeace, Friends of the Earth, EiRIS, ENDS, Business in the Community, etc.

As discussed above, in contrast to other approaches in undertaking such a study, most notably in the case of 'grounded theory' (Glaser and Strauss, 1967, Strauss and Corbin, 1990), where researchers are urged to approach the case in a 'theory-sensitive' manner, open to interpret and theorise on the basis of evidence gathered, the hermeneutic approach acknowledges the 'pre-understanding' of an issue which colours the researchers approach to the study. It seems logical, that a researchers understanding of an issue will be imbued with underlying theories and assumptions shaped by research, learning and life experience. A hermeneutic approach accepts this and equally that the researcher is not 'neutral' in the research process, but that, by being aware of the process of 'understanding' that s(he) will take into account these assumptions, theories and prejudices in analysing the research data.

A systematic approach was taken to obtain information on each company and each interviewee. In addition to using the sources mentioned above to obtain a wider understanding of where each company stood in terms of its approach to sustainability and other social and environmental issues, research was conducted into the individual to be interviewed in terms of their career moves and previous experience, where that was available. In the case of senior executives, this was relatively straightforward, but in the case of some of the interviewees, it proved difficult.

Broadly speaking, as far as the company interviews were concerned, after obtaining an impression of the information systems existing within each organisation and the reporting functions of the interviewees, discussion focused on issues of ethics and sustainable development, values and culture, communication with the market, and the reporting process (see Appendix 7). In the case of the institutions, the discussion revolved around issues of ethical investment, sustainable development, the use of corporate reports, and voting patterns (see Appendix 8).

The interviews were structured in such a way that each interviewee was given an outline of the broad research focus of CSEAR as well as this particular study. Confidentiality issues were discussed from the point of view both of informal future discussions with other parties, and also in the case of publications. The general agreement was reached that informal discussions should only reveal publicly available material; any privately disclosed information should not be discussed with other companies. In the case of publication, if any detail was to be referred to which was likely to reveal privately disclosed information, and which was likely to identify the company, then prior consultation should take place.

With the exception of interviews with two fund managers, all interviews were tape recorded (in the case of the two fund managers, the specific environment in which the interviews were held were not conducive to recording). The reasons for wishing to record the conversations were twofold. Firstly, in view of the fact that many interviews were to take place over a relatively short time period, and in some instances two interviews were conducted on the same day, an exact record was deemed to be of importance in facilitating recall of the event. Secondly, since a hermeneutic approach to the analysis involves a close examination of text and language, the more detailed the record the more likely a meaningful analysis might follow. In all cases, contemporaneous notes were also taken and key issues were noted, as were frequently used phrases or particular language or terminology. Immediately after the interview an opportunity was taken to reflect on the interview, and further notes were made. These notes included observations to do with the setting, surroundings and ambience of the actual location of the interview; the approach and attitude of the interviewee; the empathy of the interviewee towards the subject matter; the understanding of the interviewee towards some of the issues discussed, etc.

8.6 Data Analysis

The taped interviews were transcribed in full. This proved a lengthy process, each transcription being between 8,000 and 14,000 words. Issues of background noise, regional (sometimes foreign) accents, tone, and volume all combined to add to the care that was required to obtain 'true' transcriptions. Where at all possible all words were transcribed, including repeated words, words of hesitation and qualification, and language which offered insights to underlying conflicts within the interviewee. Although this proved a time consuming process it facilitated the interpretation of the interviews using hermeneutics.

The approach taken in this study to analyse the interviews was to use a reflexive and interpretive methodology, relying on the hermeneutic method. Hermeneutics requires reflection, and reconsideration of meaning with reference to other materials. In the case of this study such information was available in Annual Reports, web pages, press releases and the like. The interviews or conversations themselves were also considered as texts. All these sources of data were considered in light of the interview conversations in an effort to make as informed an opinion as possible on the motivations and beliefs of the participants in the project. to be reassessed and, in conjunction with the notes that had been made both contemporaneously and subsequently, re-evaluated in terms of the original impression and interpretation. Sometimes new meanings could be ascribed to certain passages of text and these were then reflected on in terms of the overall interpretation of the text, and the other available data.

8.6.1 The hermeneutic approach to data analysis

The hermeneutic analytical approach was designed to gain an *understanding* of the subtle and complex processes involved in the decision to make voluntary disclosure, rather than taking a more positivistic approach aimed at offering an *explanation* of a specific phenomena. The discussions and analysis explored issues regarding aspects of social disclosure, including: notions of 'relevant publics'; ideas that companies prioritise competing stakeholder groups; the possibility that some stakeholder groupings might be seen as of 'critical' importance; how far external groups can be managed; how market participants might be influenced by discretionary disclosures; how informal contact between analysts and companies can be used to adduce additional information on social issues above and beyond what is publicly available. It is acknowledged that each of these themes are open to subjective interpretations and that, in order to be regarded a valid, the analysis should be seen to be rigorous, in qualitative terms. In practical terms, each interview, having been transcribed was read over many times, and listened to on several occasions. They were assessed, and reassessed, in conjunction with the notes that had been made both contemporaneously and subsequently, re-evaluated in terms of the original impression and interpretation. Sometimes new meanings could be ascribed to certain passages of text and these were then reflected on in terms of the overall interpretation of the text, and understanding of the phenomena.

8.7 Chapter Summary

The purpose of this Chapter is to outline the reasons for the choices made in the gathering and analysis of the data to allow an understanding of the communication process between companies and institutions with respect to social and environmental information. Following on from the discussions in Chapter 7 around the move from a nomothetic to ideographic methodology, this chapter outlined the reasoning behind the choice of semi-structured interviews as a means of enquiry, and a hermeneutic approach towards analysis.

Chapter 9

The Interviews

9.1 Introduction

Chapter 8 introduced the rationale for the interview study, and how the subjects were selected. As noted, the study centres around a series of interviews conducted with executives from FTSE 100 companies and financial institutions. The broad areas of discussion, which were chosen in order to allow room for further exploration and discussion as the result of issues emerging in conversations, were designed to gain fresh insight firstly, into the way in which social and environmental policies are devised and framed, and subsequent reporting practice developed with respect to the influence the action and disclosure might have on the capital market. Secondly, by talking to market participants, to try and understand what information they are looking for, and therefore to see if the communication mechanism is effective. Equally, if it emerged that there is a gap between what companies think the market wants, and what the market participants act on, then that imparts to us useful insight to the communication mechanism also. In the next two chapters, these areas of discussion will be explored and some conclusions drawn, to allow new theories of disclosure and communication to be formulated and explored. In this chapter the focus will be on the interviews conducted with company executives and market participants. An analysis of the data and a general discussion will follow in Chapter 10.

9.2 Company Interviews

The interviews with the company executives each began with a general opening dialogue to allow me to locate not only the individual interviewee within the organization, but to allow me to a chance of positioning the interviewee in terms of the influence (s)he might have within the senior management structure. Since the focus of this part of the study is on the information generation and communication by companies, it was important to know the level of authority each individual had. This proved a valuable approach as one interviewee, when gently coaxed, admitted that she was outside her area of comfort and that she had actually stood in for an absent senior colleague. In all other cases, interviewees had the authority and experience to discuss the issues.

In framing the questions around which a semi-structured interview could be allowed to develop I wanted to be able to illuminate some of the areas left opaque by the positivist study in the first part of the thesis. I wished to explore why, when data collection and publication carried with it such costs, it was thought to be an appropriate use of shareholders' funds. I wanted to look at how the trend for increased disclosure could be explained, and at what level within the company these decisions were made. I also wanted to establish the actual process of data collection for the reports to gain insight into the contribution made by each of the interviewees. I was interested to discover whether or not the interviewee had taken an active participation in directing the collection of the data, or some supervisory role in overseeing what was to be included (or excluded).

Another trend I wished to explore was how the companies related to the developing trend of 'values based companies'. Following the positioning of companies like The Body Shop and Ben and Jerry's and the perceived value of the accompanying reputation I was keen to see how ethical values were perceived in FTSE companies. This seemed important in relation to the communication with the capital markets, if any interaction indeed took place on these issues.

It is obvious that some of main drivers for increased disclosure through the 1990's were the changes in Corporate Governance guidelines that evolved throughout the decade. Starting with the Cadbury Report in 1992, in the wake of Robert Maxwell's plunder of the Mirror Group Newspaper's pension fund, and the Polly Peck and BCCI scandals, the emphasis was on demonstrating that business could self-regulate in corporate governance without recourse to the statute book. It heralded an approach towards increased disclosure that was followed by the subsequent reports by Greenbury (remuneration of directors, 1995), and Hampel (internal controls, 1998), which also heralded the first Combined Code, and thereafter the guidance by Turnbull in 1999, Myners in 2001, Higgs in 2005, which in turn led to the process which culminated in the second Combined Code in 2007. (A full exposition of the development of the UK corporate governance framework can be found in Blowfield and Murray (2008)). The emergence of the 'comply or explain' approach to corporate governance surely brought about increased levels of 'social' disclosure, but I was keen to see if the process brought about the will to broaden this disclosure to other areas of non-financial activity.

If the findings of previous studies are confirmed, and that company – market communication avoids discussion on social and environmental issues, save where they involve risk or corporate governance issues, then in order to further explore the trend towards increased disclosure, I anticipated that it might be necessary to explore further reasons. I therefore concluded the interview covering issues like award schemes, such as the Annual reporting awards run by the ACCA, and the survey ranking by Business in the Community. I was also keen to gauge opinion on the trend towards web-based reporting, and more specialised reporting in general.

Finally, I was interested to see to what extent the reporting function was used in the process of stakeholder engagement.

What was important to understand in this context was whether or not the information companies were providing had any value to the market or whether the markets largely ignored non financial information. In essence, by focusing on these broad areas of discussion I hoped that, given the time constraints attaching to the interview process, there would be sufficient opportunity to allow for interesting and useful discussions to develop and perhaps for other issues to emerge during the process.

9.3 Social Disclosure in FTSE companies

While identifying 'disclosure' as a topic area in itself, it was always likely to be too broad, and so it proved. Almost immediately, in each interview, various specific aspects affecting the decision to disclose surfaced, and it became clear that they merited space for discussion as separate issues. Under this broad heading, therefore, I have identified several themes and will discuss each in turn.

9.3.1. The Decision to Disclose

In exploring the issues surrounding the decision to disclose, there was a marked contrast between those with a tradition of social disclosure and those without. This is explained starkly I these two quotes, the first from the heavy construction industry, a sector with little or no tradition in social disclosure, and the latter from a privatised utility company, with a long tradition in such disclosures:

> '..I think by nature we're a clandestine industry and I think that's just the way we operate…I think we are by definition, an industry which is not

> outgoing, so I think that sets point one. The bottom line for me is that I don't think we're environmentally friendly, I think we can dress ourselves up but I don't think we are environmentally friendly…'
> Corporate Affairs Director, Company 11 (Construction)

In the interview the interviewee refereed being in a 'dog' of an industry and a 'dog' of a sector and, 'perhaps even a 'dog of a company'. I asked him why he thought that, taking it to mean that her thought it was a 'bad' sector to work in. What he said he meant, however, was that they perceived themselves to be working in the 'dirty' end of the construction industry, the part of the industry that was associated with excavation, tunnelling, heavy construction and the like; not the more glamorous end of high-rise offices in city centres, constructed of glass and new materials. As such there was a perception that 'people' were not interested in the social issues connected with the company and the sector. It may also have something to do with minimising the attention given to the sector, where the accounting practices and determination of profit are somewhat problematic:

> '…this industry as a whole, and I've covered this industry for the best part of 20 years, .. is not particularly outgoing in the supply of information, it's just it's nature, and the accounting in this business is what I call the black art,… (for example), what you've got in capital projects is 2.2 billion of turnover, …nobody really has a very clear idea of what makes up that 2.2 billion, it's just a little over the profit because the way we work, and we're not unique, is that the turnover and the profit are not coincidental, when we take 5 years ago, 4 years ago, 1 year ago, 6 month ago, so when you operate at a margin, profit and turnover is totally erroneous, so we've been a very defensive industry because it's a high risk industry still and it's a low margin industry…'
> Corporate Affairs Director, Company 11 (Construction)

This attitude may help to explain the disclosure policy of the company which, certainly in the five years preceding this interview had inconsistent categories of disclosure, together with varying volumes of disclosure, but tending towards the minimal amount covering health and safety issues in the main. As the interview developed, however, it emerged that within the company, through the company intranet, conducted an ongoing dialogue with its employees on all sorts of issues:

> 'Yes, our internal communications particularly in those areas is totally geared to dissemination of information on that basis. We have a monthly newspaper, we have the web and we have, which I think is probably the most significant, is individual briefings at yards or sites across the country. So we have a very highly developed health and safety unit within the firm. The environment which we'll talk about in a second but I think that's probably where we have a gap. In terms of health and safety, we really do put a .lot of effort into it and we disseminate the information very much to our troops…'
>
> Corporate Affairs Director, Company 11 (Construction)

When pressed on why so little of this information is placed in the public domain, when it might serve to inform an interested audience, he replied, '..to be honest, I'm not sure why we don't…'

This can be contrasted with the analysis of disclosure practice by the Social Policy director of a major telecommunications company, a company with a long tradition as one of the highest disclosers of social information in the FTSE 100:

> '…so, there's a whole category who do a lot of activity in this area because of potential negatives. There are other people who make it the centre of their brand proposition, if you take the Body Shop or Co-op Bank, they've really taken it as part of their total proposition to the consumer market place. Then there's a different category in the middle where you're not doing out of a sense of potential negative reaction to your business, you're not doing it because it's absolutely at the heart of your proposition, you're doing it because you think it's an important adjunct to the way you manage and run the company…. we are in that latter category'
>
> Director Social Policy, Company 4 (Telecommunications)

This approach is in accordance with that of another privatised utility with a similar tradition of social disclosure. Indeed, from the point of privatisation, considerable resources have been applied to the social reporting function of this company with a structure to support it:

> '..we have a structure by which the senior managers in each of the businesses within (the company) sit in a group to establish environmental principles, those principles are then turned into policy business by business and businesses are required to establish key performance indicators which are related to business risk and then that is monitored by that central group and basically driven through the business planning process'
> Corporate Environmental Director, Company 6 (Utilities)

What began to emerge as the interviewing process developed was the notion that if a sector had a tradition of social disclosure, so policies surrounding the practice had been refined and the rationale articulated throughout the organisation, so that those charged with compiling or contributing to the reports had a reasonable understanding of the purpose behind the activity. Those in sectors with less of a tradition seemed nervous about extending the reach of their reporting, or uncertain of the possible ramifications.

However, one theme that recurred throughout the interviews, and which may come to play a bigger part in the decision to disclose, was a perceived 'pressure' from various stakeholder groups to increase the volume and scope of disclosure.

9.3.2 Pressures to Increase Levels of Disclosure

Indeed, an interesting trend developed as the interviewing programme developed, in that in response to the second area of discussion, i.e., how disclosure policies evolved, in most cases there ensued a discussion about the 'pressure to disclose'. Indeed, so recurrent was this, that I believe it warrants further exploration.

In order to try and understand why companies are increasing the volume and categories of CSD it was felt that useful insight might be gained by trying to determine from where the interviewees perceived the pressure to increase disclosure originated. For example, in the case of companies which altered their policies on disclosure, it might be hypothesised that if a company, at some stage in its development, decided that it was either necessary or important to re-examine its ‘core’ values, then at some point it might wish to inform its relevant audience of the fact. There would seem little point in carrying out such an exercise if, at the end of the process, the alleged values of the company were to remain confidential. Equally, if the company were able to identify a specific situation to which it was required to react, such an exercise might then go some way to explaining why a change in the pattern of CSD was observed. The interviews generally opened with a discussion on the changing nature and increasing volume of disclosure, and interviewees were encouraged to explain from where they believed the pressure for change originated. Some seemed to already have an answer well articulated, suggesting that increasing disclosure was an internally motivated decision, part of an identified strategy of CSR:

> ‘..I think businesses in general are realising the importance of bigger responsibilities, more than just creating value for shareholders, they are going to consider all the stakeholders involved in this, if they are going to have a license to operate in the long term. And I think we saw that come home very quickly perhaps to some of those who were on the leading edge of these issues, such as the chemical and oil companies. I think more and more all of us are recognising that we have to take a holistic view of business that considers not only what you are going to do for your stockholders but also for the stakeholders involved, from the communities that you work; for the people that work for you, and the environment in general.’
> Operations Manager, Company 2 (Tobacco Products).

Others, however, seemed a little more cynical, suggesting that it was a strategic response to threats from external stakeholders:

> ‘It could be that companies only disclose when the pressure is put on them sufficiently that it’s worth disclosing and I suspect that’s the case in many cases. We’re all busy and I’m struggling to do all aspects of my job and to actually produce disclosure which is not needed or not asked for is, or there’s no pressure on us, I’d be crazy to do it.’
> Company Secretary Company 3 (Brewing and Leisure)

When pressed on the point however, this interviewee proffered a more thoughtful answer, linking disclosure to changes in Corporate Governance guidelines already requiring increased disclosure in Annual Reports:

> ‘It’s really a move on in the corporate governance area I think. We’ve been under pressure for years. First of all we had to disclose more in the way of directors salaries and remuneration and the whole of that money area, then the environmental side became more important, so everyone is now producing environmental reports, underlying activity hasn’t changed, it’s just that we’re disclosing it now and that’s the frustrating thing about it. Then involvement in the community, some of that pressure did come internally, some of that is to inform your own staff, your own employees what they can do and what you will support, and really get a better feel about working for the company. But again, we’re not changing what we do, we’re just explaining it rather better.’
> Company Secretary Company 3 (Brewing and Leisure)

When asked to explain the position that his own company took, the interviewee admitted that it was usually in response to pressure from some quarter:

> ‘...we don’t disclose externally unless we are pressed to do so because the more you disclose, the more people criticise, the more questions you have to answer and we’ve see no correlation between disclosure and acceptability in the investment community.’
> Company Secretary Company 3 (Brewing and Leisure)

However, from a different sector a another notion was put forward, suggesting that it was an evolutionary process, where ‘younger’ managers, less frightened to try new approaches were more confident in making more transparent disclosures, with a suggestion perhaps that openness brings with it positive benefits:

> ‘So.. you have to take account of generational differences, like companies by and large are run by older people and not younger people, so the younger

people in the company think this is a good thing to do, the younger people in the company don't necessarily have the same fears of disclosure but the older ones do because they've been brought up in a more open society, they are more likely to disclose than older people...they kind of make the decision to do it, somewhat reluctantly... I've spanned that decade and I'm not a young person but I have seen the changes from, 'over my dead body' at the beginning of the decade...to a comment made by a chairman last year, and this report is probably the most open we have done, (he said) '..it pays to be open, it actually it pays to be open'. You get much more respect from external agencies and they will recognise…I mean we've gone through a particular trauma...they will recognise that if you are open, then they are far less likely to go for you than if you are closed, and they discover it. So there's been a whole shift, if you like, from the negative pressure to a positive and encouraging movement for this whole process.'
Safety Health and Environment Director, Company 12 (Mining)

These differing views were repeated by other interviewees, with those in companies either with a tradition of high disclosure or those who have become high disclosers, stressing the positive benefits of the practice, where the others suggesting that increased disclosure resulted from various forms of external pressure.

Of course, in the period since the interviews took place, the incidence and breadth of disclosure has increased enormously with the development of IT systems and software, and the move to web-based reporting. The use of corporate web-pages to disseminate publicity and PR materials has driven all sorts of disclosures and companies have responded to perceived criticism for environmental positioning by engaging in PR offensives of all sorts, adding to the drive for increased disclosure. New indexes of environmental performance have appeared, in addition to the BiTC index mentioned later in this chapter.

9.3.3 Purpose of the Annual Report

Having explored the notion that increasing disclosure policy had evolved rather than taken as some form of long-term strategy, the positioning of the disclosures, traditionally as an adjunct in the Annual Report was discussed. At a time when internet reporting is also on the increase, and the incidence of 'stand-alone' showing a similar trend (KPMG, 2002, 2005, 2008), the positioning of the disclosures offered the possibility to gain an understanding of the audience for the information. In addition it was hoped that some impression could be gained of the growing importance of on-line disclosures. The following summed up the views of the majority of those interviewed:

> '… the City audience…would be absolutely happy with the minimum financial reporting…and if it started here with the financial review, and a picture of the board, and all these nice numbers in the back, whatever colour they are printed on, most of my community, my serious community would be entirely happy...but it is very clear to me that the reading begins at the back, and I suspect that I could probably, if I wished, print this on black and white, or put it on the web and that would probably be, if it satisfied statutory requirements, probably enough for my audience, so I think that the front of this (is) for this wider audience'
> Investor Relations Director, Company 10 (Pharmaceuticals)

What seemed to be being suggested was that changes in disclosure policy were reflected in wider voluntary disclosures in the Annual Report in response to demand from a wider audience (which might include market participants), which was then followed up by additional material being supplied on web-pages etc.

> 'We started to be more explicit and more public about our attitude towards things like ethical trading and sourcing, and about our corporate community investment activities for example, there is an annual report there. Now, five years ago we did not produce a document like that, which spells it out and gives case studies and so forth about how much we spend on community investment, examples and so on. They would have quietly got on with it, on the basis that that seeped into another understanding. What we now recognise is that there all these are very specific groups including some within the investment community increasingly, they want to know about this. ..... we're not quite sure how much it influences the thinking, but very often they want to know, so there it is, and it is packaged in a professional

way as opposed to some being some basic data. Because that is the way the world seems to want to require this sort of stuff.'
Investor Relations Director, Company 10 (Pharmaceuticals)

This interviewee seemed slightly worried that the world seemed to be changing in a way he did not recognise, a theme that he returned to from time to time. What was significant, however, that although there was recognition that 'some within the investment community' wanted additional information on social or ethical material, there was uncertainty about the influence it might have on investment decision making. The same applied in relation to value of reputation.

The future of the Annual Report was called into question by some interviewees who already saw the prospect of web-based reporting as the way forward.

9.3.4 Disclosure to Build Reputation

What motivated this, and other companies, was clearly identified, however, in terms of building its reputation, clearly seem by all as an important strategic goal.

'Then there's a different category in the middle where you're not doing it out of a sense of potential negative reaction to your business, you're not doing it because it's absolutely at the heart of your proposition, you're doing it because you think it's an important adjunct to the way you manage and run the company and the way you build a reputation and so on. And we are in that latter category.... So, one of the reasons that we invest heavily in our reputation and in our brand and in the industry profile, is we clearly try to position telecommunications as part of the solution not part of the problem..'
Director, Social Policy, Company 4 (Telecommunications)

This view was shared by the previous interviewee:

> '... (it) is an integral part of it, and I think it's all adding to the reputation. If we get it right it adds to the reputation; if we get it wrong it detracts. It's as simple as that.'
> Investor Relations Director, Company 10 (Pharmaceuticals)

When asked how reputation translated into value, it was explained thus:

> 'In a way, I hadn't really thought about this, but we almost don't distinguish between the meaning, and of course there is a huge difference, but we don't actually distinguish between the meaning of the word reputation and the meaning of the word value. You know, they are of equal importance, because you can't distinguish between the impact of one on the other and therefore they are almost interchangeable. In our minds not in the way you might see them'.
> Investor Relations Director, Company 10 (Pharmaceuticals)

Linked to the notion of reputation is the idea that disclosure can be used as a strategic device in terms of risk management. This was identified and acknowledged by a number of the companies.

9.3.5 Disclosure as Risk Management

Disclosure was seen as an essential tool in dealing with problem areas within the business:

> 'If you've got a problem area, it's far better to be open about it because sooner or later it will become a major problem and if you've explained that you're trying to do something about it then, if the problem hits, the market knows it's a problem area, you've explained it to them up front and you've got credibility. It's part of being in control of your business.'
> Company Secretary, Company 3 (Brewing and Leisure)

An interesting explanation for greater community involvement related to the need to be aware of what local communities perceived to be important issues to do with the companies:

> 'We are all trying to manage risk and one of the reasons we get more involvement in the community is I think it gives you a better feeling of what the risks are. There's also a competitive thing. We look quite closely at what other people are doing in our business and it's becoming a standard because if you go to a new country, it's not just the size of the pot of money that you're going to put down to do something, it's also how do you conduct yourself environmentally, how do you conduct yourself socially? So these are new dimensions of competitiveness.'
> CEO, Company 7 (Utilities)

In response to the question, echoing Friedman's (1970) assertion that companies should not undertake projects which might hit profits, the following response suggests that there are positive benefits to be had at minimal cost:

> 'I think, if you go to the hard nosed, Wall Street red braces dealer who normally says, ' Returns, Returns, Returns'. They start by saying, 'What is all this social and ethical stuff costing you?' And we say, 'Actually. it's not costing us very much' (and in fact we can demonstrate that we can make money out of it. We can make hard cash straightaway). They then say, 'Will Alaska be your Brent Spar?', and we say, 'That is why we are doing this'. So, it is about managing risk by listening and engaging with all the policy debates and coming out with the position which we *believe* to be the right position....if the Brent Spar hit Shell in the market, it would be because it said that the management did not have a hold of it.'
> Global Policy Unit Director, Company 8 (Oil and Chemicals)

As a final comment on the use of disclosure to enhance reputation or handle risk the question of the various surveys arose and it seems they are taken seriously if they are perceived to impact on reputation. In this case the survey was passed to someone who did not fully appreciate the potential impact of a low score:

> '...probably the big pressure point that forced us to do something was when the business and the community survey came out 4 years ago now and

showed us right at the bottom because we allowed a questionnaire to be filled in by somebody who didn't know what was going on in the rest of the group; and because it was just one of these nuisance factors. That really gave us a bit of shock so I was then given the job for updating our whole approach to environmental matters and then we had a project over 3 years and we watched our progress in their league table and it took our results up from about 45% up to about 87% in their measure. And that gave us a series of benchmarks and a series of targets and that was very useful. It helped us to focus on areas of weakness and we could construct our programme around that. That was very useful. That's an example of a positive survey'.

Company Secretary, Company 3 (Brewing and Leisure)

9.3.6 The Annual Report as Publicity/PR

A body of research has suggested social disclosures are no more than either a Public Relations exercise (Harte and Owen, 1991) or designed to portray the company in a positive light (Guthrie and Parker, 1990, Deegan and Gordon, 1996, Hackston and Milne, 1996).Although initially rejecting the suggestion, when asked to explain the process of compiling the Annual Report, this interviewee made a reasonably good case for a public relations exercise:

'...we have an iteration from us putting data in, the editorial group decide what the theme for this year, share with us the theme, and then we provide the input. Then quite a bit of the general stuff is written by external writers, then there will be a process of getting our style into the external writing. We tend not to be journalists, we tend not to write things that are exciting, we tend not to fit in. So there will be an element of trying to do that but the sign off is, what is in there is accurate and that comes back to me. I have to sign on the final version to say I can verify that.'

Safety, Health and Environment Director, Company 9 (Pharmaceuticals)

It should be noted that all the other companies interviewed also involve PR companies in compiling the annual reports (indeed, after studying the reports of several companies over several years it is possible to detect the style of the consultants who often are retained by several top companies). Most of the companies mentioned that the production of the reports is outsourced to PR companies, staffed by reporters and communications experts:

> '…interestingly, a decision was made very early that if we were going to publish, the report had to be in the same family of documents as the annual report. That placed quite strict connotations on us in terms of what I could do design-wise, and to a large extent, a small group of individuals, some of them connected with consultancy in producing reports who almost set the standard for what a good report looks like, and quite often a lot of it is design based so if I wanted to win the awards, there's one or two design houses that I would go to and there's one or two individuals that are writing the text. I literally had that luxury in that the Chief quite rightly, wanted it to be in same family of documents'
>
> Corporate Environmental Director, Company 6 (utilities)

Whilst this interviewee disputed any notion of the report as PR, he saw no irony in the fact that the copy was written by someone outside the company whose job it was to present all reports as part of a suite of documents with the company identity running through them. The rationale was that members of the company were not writers and therefore, as these reports were organs of communication, so they should be written by professional writers using material the company offered. It was further justified by the fact that, at each iteration, it was checked by senior executives for accuracy. Another company defended the process on the basis that it was an effective way of communicating a genuinely held value structure:

> '...we embed in our strategy at a fairly high level our social responsibility; as a matter of fact, one of our key strategic elements is that we wish to be seen as a responsible; company in a controversial industry. We have very serious issues that need to be managed and addressed. And from that flows various principles in terms of a in terms of how we want be seen as an organisation. How we want to be seen as responsible and operate and the only way we're going to be seen as responsible given the various critics we

have, that will paint us in ways that they would prefer to have us painted is to be totally transparent about what we're trying to do.'
Operations Director, Company 2 (Tobacco Products)

What emerged from this area of discussion is in line with much of the previous literature, especially in relation to the size of the company and the sector. The privatised utilities, invariably also 'large' by the definitions in the literature, seem to have a sophisticated notion of the purposes and benefits of disclosing social and environmental information.

In the period since the interviews took place, publicity releases and PR strategies generally have involved web-based releases. In the past, where the use of the Annual Report was suggested as a vehicle to air publicity material regarding non-financial issues, there is now little doubt over the practice. The use of the logos of programmes associated with the activities of companies is now commonplace and this is further discussed in Chapter 10.

9.3.7 Company Value and Culture

In framing the questions, I assumed that company culture and values would form part of the decision to disclose or the volume of disclosure (or both). To a certain extent, the understanding of the value of reputation might be included in this notion, but for some companies the ethical or moral stance was important. Indeed for one it was accepted that as a PLC which had grown out of a family owned firm, the family values were so firmly ingrained that the company did not have to consider them as a discrete issue:

> 'We have as a company, a very good reputation within our own world, in terms of our ethics and management; you know, how we pay suppliers. Although they are very diverse businesses, (we have) always been known as a family business therefore the family see their reputation rests on the way the company deals. So nobody within the company would do anything because Mr ….. would see that as a personal slight.'
> Corporate Affairs Director, Company 1 (Food)

However, since the company was going through a period of transition, as new 'professional' management assumed the positions previously held by family members, so he admitted that it was something that had to be re-examined, and widened to include policies of employment, purchasing, fair trade, etc.

In another instance, a company which had recently come into being as the result of the energy regulator forcing the issue, the ‘values’ were being formulated as I conducted the interview:

> ‘..well, on values, I don't. This is really quite interesting because there is a guy in the next office actually working on our company values at the moment. That is also what the rest of my human resource colleagues do. I wouldn't say that they formally meet the board as a whole, but they are continually sounding out the executive members. Our direct boss is the human resource director, so there is a core team within the executive, moving things forward…[93]’
>
> Environmental Manager, Company 5 (Utilities)

It did seem that having clearly defined values was important to most companies, but the manner in which companies defined them, differed significantly. From the family company with strongly held family values that just needed re-stating, through the companies that were in the process of deciding what they were, to those with clearly defined values that seemed to be a requirement for all employees to engage with, the approaches seemed to reflect the sensitivity which the interviewee perceived attached to the company. In the most extreme case, the interviewee was able to recite the values with explanations:

> ‘…we do have a culture that does stand for some important things so we tried to summarise that: and say, where are the holes in that, what is it we like or don’t like about it, what is it we would change in terms of painting the culture of the future. And out of that came four key guiding values: 1 Strength in Adversity**:** …we have a very diverse management cultures all over the world; you will see that if you just walk through the building here; hey, they even tolerate Americans;. That is a key part of our culture**.** 2.

[93] Subsequent to the interview the values were published – 1. Passion for Customers 2. Pride 3. Trust 4. Challenge. 5. Support.

Open Minded. That's another key tenet that we wish to be seen and appreciate our people for accepting our new ideas and receptive as an organisation to new ways as moving forward, to be malleable. 3. Enterprising Spirit: ..a lot of pioneering goes on in this business - we've opened up a lot of markets for the first time. The business continues to go through a lot of change, the product is in continuous development and if we don't have the sense of this pioneering or enterprising spirit to continue to renew ourselves then how can we ever be successful in the future? So, building on that strength of the past, and making sure it's something you don't lose going forward. And, 4, Freedom through Responsibility.'
Operation Director, Company 2 (Tobacco Products)

It can be clearly seen that the values of this company reflect the 'challenging' position tobacco products hold in today's society. In many ways the values of the company are aligned to the 'right-wing' notions of freedom and free-enterprise which can be observed in the mission statements of various fringe political parties in the UK[94]. It avoids any discussion on the product, or the challenges that trading addictive products raises in terms of moral positioning, but justifies it in terms of freedom and enterprise:

'..we need to empower people, and we think that is also a thing that goes with our product: freedom through responsibility. We realise that we make a risky product, but we're sure people should have the freedom to make that choice when they have been informed and understand the risks that are involved and can take the decision that the pleasures that they get from the product outweigh these particular circumstances. That's what we've done: to try and identify where some of the core values - and when we did this we were pretty comfortable that it did reflect our culture and we think its going to serve us well going forward.'
Operation Director, Company 2 (Tobacco Products)

[94] See, for example, the manifesto of the now defunct Freedom Party -

http://www.freedompartyuk.net/public/manifesto/index.html

Having explored the nature and decision to disclose I then wanted to get some measure of how the interviewees understood the audience and market relevance of their disclosures.

9.3.8 Social Disclosure and Financial Markets

It was here that, perhaps unsurprisingly, each interviewee focused very much on their own business and tended to answer within their own context. For example, in the case of the tobacco company the value in the market was deemed to be far more vulnerable to threats of litigation, yet in the longer term CSR issues were considered to be of importance:

> 'I don't think it (CSR) does have much impact; there are significant overriding factors which affect stock price. Litigation is a major one. So we meet with analysts who are interested in how sound the businesses is and what our strategies are, and litigation plays an important part in the discussion. And my hope would be that as that noise dies down and you start looking at the fundamentals of the business, that these other factors will be more important in the future.'
>
> Operations Director, Company 2 (Tobacco Products)

In another case, from a sector with a tradition of low disclosure, health and safety issues were seen as having a direct effect on profitability and that was seen perhaps, as another form of risk management:

> ' ..so, for us in terms of generating a good bottom line, the health and safety aspect of our employees worldwide, North Sea, Caspian, wherever; that's not just being a good citizen - it's actually really instrumental in us generating a profit. I think that's probably as far as we get in terms of being a good corporate citizen, if you will'.
>
> Corporate Affairs Director, Company 11(Construction)

However, from a sector with a tradition for high disclosure, there seemed to be a more distinct link to market value, through reputation and branding:

‘I think in our case it’s quite clear. Essentially, our value to shareholders is not just performance, but also your reputation and some of the good will assets that you are building up and stock markets are now quite used to valuing good will. If you look in some of the evaluations for good will, if you take people who have been in the brand business for a long time, like Coke or whatever, goodwill is factored in as part of the evaluation. So for us it’s investment that we think will pay back on our reputation and our reputation is an important part of our evaluation and our brand values and so on...’
Director, Social Policy Company 4 (Telecommunications)

This suggested that perhaps issues of CSR were a topic of interest in the regular meetings that take place between analysts and companies. This was an issue which was put to all interviewees, and the broad consensus is reflected in this comment from the investor relations director of a pharmaceutical and retail group:

‘Is it ever a dominant item of discussion? No, it is not. It is a very rarely a dominant item for discussion. Is it dealt with around the edge? Yes, it tends never to be raised in very formal business - discussing the performance of the business, discussing the strategy. It is sometimes discussed outside the meeting with me as a separate issue. So there will be an interest, perhaps within certain funds, where they will be running the fund which is invested in environmentally preferred institutions’.
Investor Relations Director, Company 10 (Pharmaceuticals).

In fact, this interviewee went further:

‘...as far as my audience is concerned, the City audience, they would be absolutely happy with the minimum financial reporting, you know, if this annual report continued to have a very plain cover, .. and if it started here with the financial review, and a picture of the board, and all these nice numbers in the back, whatever colour they are printed on, most of my community, my serious community, would be entirely happy; it’s absolutely amazing how many questions from them I answer which are actually

> answered if they read the front. They will often ask me the sort of question, 'Well what, proportion of such and such a business sale goes to such and such a place. And, it's in there. It's usually in here under the particular bit that applies. But it is very clear to me that the reading begins at the back…'
> Investor Relations Director, Company 10 (Pharmaceuticals).

In line with research in the area, examined in previous chapters, the absence of a causal link between social performance and financial performance was identified by one interviewee and cited as an issue:

> '…it's pretty hard to correlate anything precisely with share price movement, because if it was, then everybody in town would be doing it. There are a series of consultancies who make claims for shareholder value which seem to hold in the short term but is less clear they hold in the medium or long term. So, I am not surprised you don't find a correlation. I think it's quite difficult to find a correlation. And you're also in this sort of fads, and part of the market where basically you've got excess money chasing limited opportunities, so as the fashion swings backwards and forwards, so values change between various sectors, so it's hard to build a model which is just from the company up, you've got to come from the top down as well.'
> CEO, Company 7 (Utilities).

What came across from these subjects, and largely confirmed by the other interviewees, was that social disclosures were not predominantly made for the use of market participants, although companies would happily engage in discussions if social issues were brought up. On balance, it appeared that this did not happen very often. Even when considering alternatives reasons for market participants to engage more fully, for example in relation to green funds, or ethical investment in general, there was a similar lukewarm response:

> '..I think, from my point of view, if I was looking at the bigger picture, green funds are only two per cent of the current market…. I think you'll only get the majority of companies really paying attention when they become ten, fifteen, a twenty per cent of the market.'

Environmental Manager, Company 5 (Utilities)

An even stronger response was given by another company:

> '… let me put it this way, in the last year I have had one or two active approaches. (An investment fund) called me and told me we were outside their ethical funds. They gave me detailed reasons why, though I can't remember off the top of my head…there were a host of reasons. I wrote back to them and said 'Look, I am more than happy to chat, but not on your criteria.'
>
> Corporate Affairs Director, Company 11 (Construction)

In the interview with the only CEO in the group, when questioned about informal analyst meetings, he explained that there is little interaction on the principles of environmental stewardship, except where it is reduced to issues of risk:

> 'Our shareholders become sensitive to the way in which a company is viewed and if it's not viewed well, then you get lots of pressure. We manage to combine a pretty healthy generation of shareholder wealth with a more decisive step into interacting with our environment in a more productive way…..'shareholder value' is the final expression and it's certainly the fundamental reasons companies exist but at your peril, do you irritate other stakeholders. We live in a world where, we don't have to tell you, if you have a row with a stakeholder, that is likely to damage your share price, not enhance it... We are all trying to manage risk...'
>
> CEO, Company 7 (Utilities)

This impression that analysts are rarely interested in the moral dimension of corporate activity was largely confirmed across the sample. Given this lack of interest on the part of the market, if this is the case, it is hardly surprising that companies furnish analysts with what they think they want:

> 'Now, we had a new chairman quite recently, so we talk about who he is, what's been happening to the share price over time, try to explain the ups and downs of share price over time; things of that sort.'
> Investor Relations Director, Company 10 (Pharmaceuticals)

9.3.9 Other Influences in the decision to disclose

In exploring the further the reasons that companies choose to make social disclosures, I put questions about the influence of new regulations regarding the reporting of the ethical content of pension funds, and about the various award and ranking schemes operated by the likes of the ACCA and Business in the Community (BiTC). To one interviewee the company was shocked into improvement when they came last in the BiTC rankings:

> '…probably the big pressure point that forced us to do something was when the business and the community, business and the environment survey came out 4 years ago now and showed us right at the bottom because we allowed a questionnaire to be filled in by somebody who didn't know what was going on in the rest of the group and because it was just one of these nuisance factors. That really gave us a bit of shock so I was then given the job for updating our whole approach to environmental matters and then we had a project over 3 years and we watched our progress in their league table and it took our results up from about 45% up to about 87% in their measure. And that gave us a series of benchmarks and a series of targets and that was very useful. It helped us to focus on areas of weakness and we could construct our programme around that...'
> Company Secretary, Company 3 (Brewing)

Another interviewee, with a Utility company which had not entered any of the schemes, expressed caution, and suggested that they would have to confident about the result before they did, to the point of involving external bodies to gauge the quality of the report first. Another Utility with a longer tradition did enter the ACCA awards because of the perception that it would be expected of them:

> '…yes, we have an eye to good practice, if you're going to create a report, create a good one. You make the decision, 'are you going to report or aren't you?', and we said,' we can't really not.' We've got a bit of a reputation to think of.. we've created one… what would people say if we didn't.'
> Environmental Director, Company 6 (Utilities).

This theme was repeated by another interviewee who asserted that:

> '..I think in terms of getting recognition for responsibility that I think that could be seen as important to us. And it's my experience with this company that we like to be seen as leaders and if we can get recognition for that then gaining awards is something for us to feel good about so, if we did social reporting then we would want to take a leadership position in it, whether that's just within our sector, of the industry or whether it's in the whole field of social reporting.'
> Corporate Affairs Director, Company 2 (Tobacco Products).

It seems clear that the companies perceive a PR/reputation benefit of doing well in the rankings or award scheme. Indeed, it would seem illogical to expect anything less. Both the ACCA and BiTC announce the winners with a measure of publicity, and the companies pick up the awards at a ceremony which is widely reported. Their achievements are then trumpeted on their own web-sites, so it would be hard to argue that the preparation of the reports are unconnected to the PR motive.

There was widespread acknowledgement of the importance of web-based reports. All interviewees express the notion that web-based reporting was likely to increase and in many ways, replace the hard copy. We now know that this is the case, and that separate web-based reports have largely supplanted the Annual Report as the medium through which social and environmental issues are communicated.

9.3.10 The Focus on Sustainability

If, for a moment, we accept social disclosure as a proxy for social performance, then increasing disclosure levels should indicate improving social performance. The question put to the interviewees regarding their company's attitude to sustainable development was designed to obtain an understanding of the nature of the social programmes each company was undertaking. As discussed in the opening chapters, sustainable development poses severe challenges to corporations if they engage fully with the Brundtland approach, and moderate challenges even if they redefine the concept to a more ‘business-friendly’ definition. The results were somewhat discouraging, if not entirely unexpected. At a general level, knowledge of the issues seemed sketchy, often equating issues of sustainability with environmental management or life-cycle analysis. In some cases it was not seen as an issue of concern at all. For others, the lack of an appropriate definition appeared to be a stumbling block:

> ‘..I wanted to get a paper on sustainable development to the board to get them thinking, 4 or 5 years ago, and the difficulty was in the definition of all these things and my boss said we can’t give them all this tosh. What would it look like?’
> Corporate Environmental Director, Company 6 (Utilities).

Another company, having come to terms with the concept was still grappling with the operational complexities:

> ‘..we figure this as an important issue. It's one that we think is an important next step for our own programmes. We are currently wrestling with how two operationalise the sustainability commitment to our systems.’
> Operations Director, Company 2 (Tobacco products)

For one of the utility companies the interviewee saw gas exploration as being necessary as a ‘bridge to a more sustainable world’:

> ‘..we are going to need hydrocarbons for quite some time, gas is less environmentally damaging than oil, so we engage in that, we engage in the energy efficiency business, we’re into maximising the efficiency of the energy usage. Those are realistic contributions that we can make. There are other options open to us but they are more in the presentational area than in the business area, in the main business area, what we want to stick on is that gas is more efficient…..that’s what we see as our contribution.’

CEO Company7 (Utilities)

An interesting policy issue emerged during a discussion on sustainability, when one interviewee suggested that his company were being held back in developing renewable resources by restrictions on the awarding of renewables contracts:

> '…I can make more money in wind farms than I can in coal power generation. I can't build enough of them quickly enough because the regulatory policy only allows me to recover costs on certain ones, there's a thing called the Scottish renewables obligation which, because the costs were dearer, you had to bid to get these contracts. But the ones that you got made more money than you did in other projects. So there's no doubt that doing green things actually does add value but it needs a context to exist in.'
> Corporate Environmental Director, Company 6 (Utilities).

Indeed, in a number of interviews, a mild confusion over the overall aims of government policy was expressed, with an overall impression being gained that different departments were pursuing their own agendas, with little overall direction from the centre of government:

> '…The establishment of the climate change levies is a bloody shambles to put it mildly. Now I could easily write a tirade and have in private responses to consultations saying look, this isn't working, this is a major problem...that but it's questionable how much good it would do your company…'
> Corporate Environmental Director, Company 6 (Utilities).

It is also clear from this, that irrespective of the criticism, there is little appetite to make a fight of it with government.

9.3.11 Stakeholder Engagement

In terms of the corporate governance changes noted above, and the move towards 'stakeholder engagement, I was interested to find out what this concept meant to the executives I interviewed. It should be borne in mind that the Combined Code, Turnbull and Myners had brought about widespread change, and at the time the interviews were being conducted, companies were still working out what their approach should be, given the voluntary nature of the process.

In general terms, the impression I was left with was that stakeholder engagement largely meant engaging with stakeholders that could either help the company in policy terms, or stave off some form of criticism. This is illustrated by this interviewee:

> '…we organised an environment forum, which is really when Exec directors meet with the Head of the Association of Conservation of Energy, Head of Friends of the Earth Scotland, another chap, (..). who is on the board of (..) PLC. and also head of one of the big paper makers, Lord (..) the ex-Environment Minister who is now a conservative peer. People like that, Head of Energy Action Scotland, big significant players. We tried on a number of occasions to get somebody from the city or with city connections, and there are so few of them, but once you're past Tessa Tenant you're kind of stuck. There is a handful of them and they almost all will say, 'No, we're too busy.' I found it very, very difficult, in fact impossible, to get anybody from the institutional investment community to be interested…'
>
> Corporate Environmental Director, Company 6 (Utilities).

In another case, a company with a large number of retail customers saw its annual report and website as an important part of stakeholder engagement:

> 'We have an unusually high percentage of private shareholders on our register, which is a factor we cannot set our minds against. About 25%, which is quite unusual in this day and age, when we might expect it to be between 10% - 15%, something like that… I think I would say that because of our large private shareholder base, we have a regard to those people, really in every publication, and if you look into that annual report, although it's geared at investors, the real audience for it is really the private investor. So the stuff that's got to be in there because it is an annual report, and there

is other stuff that's in there because that will impact the thinking of private shareholders and hopefully, in a broader strategic sense, obviously the institutions.'

Investor Relations Director, Company10 (Pharmaceuticals)

With the same emphasis, another company talks of entering a 'partnership agreement' on bio-diversity:

'What we have recently done is to sign a partnership agreement on bio-diversity with five NGOs and we had a signing ceremony last month. We have developed this partnership to enhance bio-diversity in the areas of the world where both we have operations and the NGO partners have operations as well. And it is quite a significant investment that the company is making. £5m over a five-year period. What the five NGOs have done so far it to lay out a list of projects to enhance bio-diversity and over the next five years we will be implementing these projects, and hopefully showing significant results; because we believe that bio-diversity is the key to sustainable development. So that is very exciting.'

Operations Director, Company 2 (Tobacco Products)

Once again, this is in line with the literature that talks about 'strategic' stakeholders and the need to engage with the most important of the stakeholder groups.

This concludes the part of the Chapter dealing with the company interviews. There will be further analysis and comment in Chapter 10, after I have discussed the interviews held with individuals involved in financial market activities.

9.4 Market Participant Interviews

As noted at the beginning of this Chapter, the purpose of talking to market participants was to see if there was a sense of shared understanding in terms of what was being provided by companies as being what was needed by the market. This pre-supposes two things. Firstly, that companies thought social information had a market effect, and secondly, that markets wanted to take note of social and environmental information as part of the pricing process.

The interviewees were made aware of the general aims of the study and, although both were working in 'ethical funds' when they were interviewed, they had not entered their chosen professions in order to work there. In both cases the move to ethical funds had followed internal moves. It meant that each had a perspective on conventional market activity as well as in the SRI sector.

I was interested to gain an understanding of how they perceived the changes that had taken place from 1988 (roughly), till the date of the interviews (the same period as the data run for the first study), in terms of the value to the market of social and environmental information. I was interested to hear if the alterations to Corporate Governance codes had any effect on the 'buy' side, and whether or not social and environmental issues came up in meetings with company executives. I also wanted to see if changes in the duties of Trustees to Pension Funds would be likely to change market demand for information. Another area in which Pension Funds can exert influence is in the voting of resolutions at the company AGM. I was interested to see the form that might take.

9.4.1 Changes Over Time

One of the changes which took place in the period under review was the growth of investment in SRI or 'Ethical' funds. It had grown to some 2% of the total investment universe by 2000 (Kreander, 2001), it has remained steady at that figure since, and the anticipated movement towards a more ethically focused market does not seem to have materialised (see Appendix 10). There may be many reasons for this, but the way in which the sector developed in a rather unstructured way may well be part of that, and having to compete with tracker funds during the extended bull market of the first decade of the 21st Century must have been a difficult task.

However, going back to the early days of SRI, the movement into ethical funds for the first interviewee seemed to be a somewhat less than strategic decision. A small company had a small fund, and 'for some reason' decided not to continue and asked this company to take over the management of the fund. From that the provision of funds grew:

> ‘A decision was then taken, well, we’ve now got this, well there is something here, which is quite farsighted in looking at that back in late ‘88. So then in April ‘89, the decision was taken, right we’re going to launch a unit trust and a life fund based on that fund. So by accident, what I’m really saying, is that we inherited that criteria which had been very much set up by that independent financial adviser.’
> Fund Manager, Pensions and Insurance Company 1

Both companies employed similar methods at arriving at the investment universe for their ethical funds:

> ‘…how do we come to buy (a company) as an investment? The first thing we do is look at the prospects for the company and we look at the fundamentals of the company and decide whether it is a viable investment. And with all the companies we have in the portfolio the most critical issue is that they are fundamentally sound, have good prospects, and will be able to grow their earnings in the future..’
> Fund Manager, Pensions and Insurance Company 2

The significance of this is that most of the companies in the FTSE 3500 will be included at this stage, and it is after this point that ‘social screens’ are applied. From the adjusted list of companies (normally about 150) the ethical fund manager can make their investment decisions. The criteria for exclusion also seemed somewhat arbitrary and open to challenge on logical consistency. In terms of company disclosures, it becomes irrelevant if the company is screened out and, as we saw illustrated above, most companies will not negotiate on their key area of activity just to be included in an ethical fund.

9.4.2 Use of information

In terms of the demand for information by the market, the message that was repeated related to the fundamental of the company. That is to say that the same methods of examination were applied to all companies in all funds. When it came to the ‘social screen’ other sources of information were available, and there seems to be little to choose between funds. It seemed that many of the funds used the Ethical Investment Research and Information Service (EIRIS) to obtain background, rather than drawing up new criteria:

> '..because they were really taking what EIRIS had evolved as the areas that they would screen, so, yeah, they're going to cover animal welfare, arms, nuclear power, so we'll just take those and adopt a fund criteria. In effect, if you look what ethical fund does and Friends Provident stewardship and NP, they're broadly speaking, fairly similar. They may not be directly comparable… they all have slightly differing interpretations of where they're going to draw the line or apply that criteria, but there is a degree of similarity though..'
>
> Fund Manager, Pensions and Insurance Company 1

This was confirmed by the other interviewee:

> 'The top line across here is obviously ethical fund and because, as I said, it is set up as a negative or exclusionary fund, it's fairly easy to sort of, if the company does *x*, it's not going to be in, so we actually do rely quite sensibly I think, on EIRIS to do a fair amount of that screening for us. To my mind, why reinvent the wheel when they're covering some bog standard ethical criteria. But there are some areas that either EIRIS don't cover or don't go deep enough into, or don't pick up on new issues and the like, so I'm probably only covering about 20%. So for ethical fund, it's relatively easy to have about 80% covered out of house, 20% in-house.'
>
> Fund Manager, Pensions and Insurance Company 1

However, when the suggestion was made about direct contact with the company in terms of stakeholder engagement, there seemed to be a reversion to more mainstream issues:

> '…engagement is not a term I like at all because again, it's a bit like ethical, it's undefined, it means different things to different people and is pretty ambiguous… I'm just getting to the active engagement dialogue bit on corporate governance which is an equal role between the two of us ..Corporate Governance is an area that the fund looks at specifically but it's

also an area that the investment department or fund management and research area looks at as well. So, strictly speaking, the ethical funds would be able to vote the holdings within the portfolios, according to the principles of the two funds. However, we would normally follow the ABIs, the Association of British Insurers, IVIS, Institutional Voting Information Service guidelines, and that would really give us a feel for how we as a group would vote. So that's the second way in which we can have dialogue with a company, if there was something we didn't like, which is either causing us to abstain or vote against, it gives us the opportunity to engage with them and find out what the problem was.'

Fund Manager, Pensions and Insurance Company 1

9.4.3 Voting Resolutions

I was interested in the way the funds might exert pressure on companies and explored the notion of voting at Annual General Meetings. What was revealed was that the companies did exercise the right to vote from time to time, but the grounds upon which that took place were very much business centred:

'.. we had an interesting development a little while ago in which we were asked to oppose a resolution in the company. It had a large resolution against it on two grounds: one was that a person was being appointed to the board who was a former director of the company and he was being appointed as a non-exec, and was thought to be too close to the existing management. The other was on a human rights issue on the company's discouragement on organised labour. However, management was supported by about 75% of shareholders, so they got their way…'

Fund Manager, Pensions and Insurance Company 2

On a similar occasion, the other interviewee recounted:

'There's only one that I can think of which is the BP one and we didn't actually hold at that time, the BP shares in the portfolio and that was back in June wasn't it, the Greenpeace shareholder resolution. I think we were

> warmly disposed of what they were doing. I have problems with how they approached it and I think many, and as you know, we're members of the UK Social Investment Forum, and we had a BP Greenpeace meeting, evening seminar get together about that and I think we all agreed that, laudable though the Greenpeace campaign was, it was in many ways flawed and that if they had worked better with some of the on-side protagonists within the city, including ourselves, we could have maybe assisted more proactively'
>
> Fund Manager, Pensions and Insurance Company 1

An even more effective way to signal displeasure would be dis-investment. I was interested to know if that was a strategy:

> '…yes we did – (…PLC), they were not actually in breach of the ethical fund's criteria at all and in fact, strictly speaking from a positive viewpoint, there's a lot of very good things about that company but we took the view that it was becoming what we call one of these 'customer intolerant' stocks and it was going to cost us an awful lot of money and time and effort in responding to these, obviously not to justify the company, what we're trying to do is explain what the fund does but that was one that was ultimately becoming inexplicable and so we did take the decision to divest from that. It's now back and cleared it, it's now back …'
>
> Fund Manager, Pensions and Insurance Company 1

There is always an issue during mergers and acquisition activity. Occasionally following such activity a question mark is placed over inclusion in a particular fund:

> '..earlier this year one of our companies bid for the Canadian company Seagram's which is one of the biggest drink producers in the world, and that obviously put a question mark against the company as a long-term investment for the fund, but they stated that they would not be continuing with the drinks side... however, I think that was a purely business decision…it was not to do with remaining in the fund.'
>
> Fund Manager, Pensions and Insurance Company 2

9.5 Additional Fieldwork

In addition to the interviews above, I also held a group meeting, in November 2000, with members of the Society of Technical Analysts during an evening lecture held as part of their diploma course at London South Bank University. I had hoped that the group would be keen to engage in discussions on social, environmental and ethical issues, but the event was something of a disappointment, with few keen to engage at any level. One person who did talk to me was surprised that I should suggest that market participants should be challenged on trading patterns. He was of the view that market trading was a totally amoral, neutral activity, and that no blame should be directed at market traders for their lawful business activity. He could see no connection between his daily activities and environmental degradation or any other social ill. Others expressed the view that 'this sort of research does more harm than good', and is the kind of research that increases the likelihood of regulation. I left early and slightly taken aback with the apathy shown by most of the group and the defensive posturing of the ones who did talk to me.

I held a final meeting in January 2001 with the Global Head of Equities at a major Mutual Assurance Company. This interviewee had had wide experience in conventional fund management have risen through the organisation from the trading floor some twenty years previously and having held positions as Head of the Japanese Funds and then European Funds.

Her perspective on the changes over the period of the 1990's with respect to on social and environmental issues was largely influenced by issues of governance and risk. It did not seem that in the business sense much had changed other than an awareness, stemming from such issues as the Greenpeace protests against Shell in the mid 1990's, that environmental issues could affect company performance and therefore should be viewed as risk issues. This, and other corporate governance events, like CEO remuneration, had caused the company to introduce a 'governance health warning' which was an icon placed on trading screens. This warning could be posted by individuals of certain seniority within the company, and it was not allowed to trade in the shares of such companies without sanction of the person placing the warning.

The identities of these companies were confidential, and the warning was only removed after the issue had been resolved. Often this was done reasonably quickly by contact with the company. Sometimes, however, the warning would remain for many months if a particular issue was part of the core activity of the company. The company in question was not informed of this practice, though it is thought that they may have had some inclination of some form of sanction was being levied, from observed changed trading patterns. She was unaware if this practice was shared among other Mutual companies.

9.6 Chapter Summary

This chapter covered the interviews held with both company executives and market participants. The study marked a change in approach in methodology from a quantitative to a qualitative approach and informed the findings of the thesis to a greater extent than the first study. A hermeneutic method was used in the study, whereby research was carried out placing the subject matter within the number of contexts. At the heart of the thesis is the place of business within in relation to the challenges facing the biosphere by the over use of resources and the threat of global warming. Equally, to try and unpick the mechanism of accountability between corporations, now proven in aggregate to be at least connected to, if not individually responsible for climate change, and society, an examination of the motivation and practice corporate disclosure was undertaken. Furthermore, and motivated by the notion that corporate growth is fuelled by capital market incentives, the views of market participants were sought, to try and gain an understanding of the value of non-financial information in the stock-valuation process.

Themes were identified through applying a hermeneutic approach. The literature on social disclosure was examined to identify some, but others were derived from engaging with wider societal issues, or as a result of wider reading. The use of semi-structured interviews allowed these themes to be fully explored and motivations examined. What began to emerge was an emphasis, on both sides of the market, of the importance of the business case in these issues. A *single* bottom line of profitability was the main driver in considering the advisability of programmes of responsibility, whereas disclosures were seen as a publicity function in the main. In Chapter 10 the significance and implications of the interviews will be discussed further.

Chapter 10

Significance and Implications of the Interview Study

10.1 Introduction

In Chapter 9 the data from the interviews was presented. In this Chapter it will be further examined and analysed to try and gain an understanding not only of the process of communication between companies and market participants, but to try and get underneath the rhetoric of this activity to the point where it might be possible to make some tentative suggestions about the value of social disclosures in a market context. This lies at the heart of the thesis. We know that social disclosure is rising, but we are less sure about why that might be. Of more importance is the question of whether or not such practice is of any use in altering the opinion of financial markets to the credentials of the company to the point where a ‘good’ company will become the one to invest in, and the ‘bad’ company avoided. This is crucial to the quest for sustainable development. If some form of causal link could be made between social reporting and market performance, then there may be some hope that both markets and companies will take renewed interest in examining their core activities[95].

The Chapter opens with a return to the subject matter of Chapter 7, and a discussion on the hermeneutic approach to the interpretation of the results of the data obtained in the interview process. The particular issue of personal embeddedness within the research process is explored and then related to the interviewees and the themes that were discussed with them. There is also a section where I question some of my own assumptions as a critical researcher, in relation to the responses I gave, and there is a section on the overall impression of this part of the study.

10.2 The Hermeneutic Method

It was acknowledged in Chapter 7 that claims could be made for a variety of methods to analyse this form of qualitative data, and there are many further examples, not covered in this thesis. What was important to me was a method which was reflective and which suited my own approach to making sense of the world. It was at this point I made the case for

[95] It is too easy to cite examples of poor environmental performance being rewarded by the markets. For example, one extreme example relates to the strategy taken by Drax Power PLC to reduce the proportion of biomass burned when energy prices rose in 2006. This led to an increase in profits of over 2,330% and a doubling of the share price (The Guardian 13 September 2006.). In addition, despite being named in the WWF ‘Dirty Thirty’ list as the UK’s biggest single emitter of CO_2(See: http://assets.panda.org/downloads/ European _dirty_thirty_may_2007.pdf) , The Drax website refers to itself as ‘the largest, cleanest and most efficient coal-fired power station in the UK. (see: http://draxpower.com).

analysis of the textual data based on a hermeneutic approach. This choice was made in the full understanding that the interpretation is subjective, and informed by the shifting socio-political landscape that evolves over time. It is based on the notion of the researcher embedded within the social and political context of the research. Themes were identified in a variety of hermeneutic approaches, based on the notion of the hermeneutic arc. This is an iterative process whereby the researcher attempts to make sense of the issues by reference to 'the bigger picture', and make sense of 'the bigger picture', by reference not just to the issues themselves, but the background and context of how the issues developed. Equally, the process of interpretation involves processes of reflection as the interpretation evolves. In many ways, this may intuitively be seen as the process of all human understanding, the way we ascribe meaning to events by reference to our constructed world, our path of socialisation over time, our politics, religion, etc.

This interpretation is based on how we understand the *meaning* of the text, in terms of the spoken word as text, and in terms of the text written as Annual or other reports. In this context, issues of language and meaning raise a number of possibilities. Meaning itself is a subjective construct, as Ingram (1995) points out. In Ingram's analysis *meaning* relates, in linguistic terms (paraphrased) to my best guess, based on my abilities and linguistic skills of interpretation, of what was said by another, constrained by the limitations on their part of how best to express what was meant[96]. What I am proposing here is that what is both written by companies in their various reports and how the interviewee expressed their views are both open to subjective interpretation, and that this interpretation is likely to be aided by understanding the context of the disclosures in terms of social, political, and economic conditions, and equally the internal conditions relating to the individual and the company.

In preparation for each of the company interviews, I researched the previous five year's Annual Reports for each company to gain an understanding of how the company was positioned in respect to the issues that were under investigation. I already had quantitative information on the categories of disclosure over time, from the CSEAR database, but the

96 This is the process which may well have given rise to the well known quote, attributed to Robert McCloskey, 'I know that you believe you understand what you think I said, but I'm not sure you realize that what you heard is not what I meant.'

examination of each report gave me an opportunity to develop a view on the positioning of the company on a number of fronts. Thus, in contrast to, but with no intention of denigrating a grounded theory approach, where the researcher approaches the research in a 'theory- sensitive' way, this approach by the researcher fully acknowledging his preconceptions, assumptions, political and social background etc. Equally, reflections on the research are based on the assumptions of the self based on past research, custom and language. In essence, this approach reflects my way of understanding my socially constructed reality, creating a personal ontology, which then shapes my epistemological approach and what passes, in my world, for knowledge.

In this way, therefore, the production of knowledge is facilitated by examining the use of language and theorising about the themes which have been explored, related to the experience of gathering the data. The gathering of the data created a number of issues relating to its value, validity and relevance. In the next sections of this chapter I am going to review and reflect on some of these issues.

10.2.1 Reviewing the Company Interviewees

One of the issues I mentioned at the beginning of Chapter 9 was the selection of the interviewees. This should also be mentioned as a possible limitation of the study. Despite carefully explaining the market focus of the research in the initial communication, a diverse range of managers either offered themselves or were offered by the companies for interview: one CEO, one company secretary, one investor relations director, one operations director, one social policy director, three corporate affairs directors, two directors with responsibility for safety, health and the environment, one corporate environmental director, one social accountability manager, and one environmental manager (see Appendix 9).

Apart from one instance (company 6) in which the CEO wished to be interviewed in person and where he clearly had close contact with the market institutions, in only one other case (Company10) was the interview held with the investor relations director as well as the individual responsible for issues of corporate social responsibility (this was a company with a long record of high disclosures, in a high disclosure sector - see Appendix 2). In this case, it was immediately obvious that the individuals and the company had a very clear idea of the mechanism of communication with the market and also that they felt they understood how the market valued their reputation and the fact that they were perceived as leaders in their sector.

In another case (company 8), this director had a very clear remit to liaise with the investor relations department on all issues thought to be of ‘a sensitive nature’, and regularly attended meetings with market participants. With one exception, however, all of the other interviewees were at a level in the company that they had access to the board on a regular basis, and had a keen knowledge of the financial markets, and of the pressures placed on them to perform in that arena. So, although initially concerned by the diversity in the job titles of the interviewees, with the one exception mentioned, all were at a level where they had input to board communication with market participants. On balance, therefore, I believe my sample to have been largely relevant to the study and of a level of seniority within their individual companies to make a contribution to the study.

The other issue which has to be considered in terms of the significance of the data, is the degree to which the responses are meaningful. In the same way the questionnaire surveys are criticised with regard to the amount of thought and effort put in by respondents, so the engagement on behalf of the interviewee is worthy of mention. All the interviewees were senior people who had time constraints which had been made clear before the visit, and that did play a part in that towards the end of the interview, in two cases the answers became shorter and the ‘body language’ indicated a desire to move on. At that point I terminated the interview, and some of the issues were not fully explored.

The interpretation of the level of engagement which took place between the interviewer and myself as the interaction took place is necessarily subjective, but in only one case was did I surmise, as I progressed through the interview process, that I was being mildly patronised, and that the answers were rather formulaic, and very much along the lines of company policy. In most cases I was able to test some personal opinions of the interviewees to see to what extent they were aligned to company policy, and make judgements accordingly. In one case I formed the opinion that the person being interviewed, although they said they had regular contact with the market, probably did not, and was suggesting that they held a more senior position than they actually did. In this case I made some checks at a later time and found corroboration for this viewpoint, although I would not know if it was actually the case. I have reflected my concerns, such as they are, by being careful to select passages from the interview transcripts, in relation to the relevant individuals to reflect commentary which I took to be engaged and thoughtful.

10.2.2 Market participants

The interviews with the ethical fund managers revealed few insights that might not have been anticipated. Broadly speaking the director overseeing the fund researches and selects about 150 companies which measure up to the criteria decided upon, usually by applying a negative screen. This population is then passed to a fund manager who has discretion over the actual make up of the fund portfolio and how funds are moved within it. It is this individual who meets with the selected companies and who might ask the questions referred to above. The fund manager, however, is mainly concerned with the financial prospects of individual companies included in the portfolio and in the interview suggested that she would not normally engage with companies on CSR issues.

What was perhaps of greater importance was the fact that the interview with the head of equities for a major mutual fund revealed a far greater interest in CSR issues than might have been anticipated. Under the broad heading of 'corporate governance' issues, CSR was seen as an essential signal of management quality

10.3 Reviewing the Themes

Central to the purpose of the study was to question the proposition, in Freidman's (1970) terms, that 'the social responsibility of business is to make profits', and therefore to investigate why companies impose unnecessary costs in the reporting of non-financially relevant issues. At essence is the positioning of the company in moral and ethical terms. Being responsible in terms of core activities, products and services is a moral and ethical position; whereas acting as a consequence perceived issues of risk and governance is an overtly pragmatic response, which may then be dressed up as 'responsible'.

A number of concerns are raised in the literature with respect to the purpose of the various disclosures made relating to the purpose and intended audience of the disclosures. Some aspects of the trend for increasing levels are well established. The movement towards a 'comply or explain' framework for corporate governance, and the requirement to include various aspects of activity relating to the company directors has meant increasing disclosure under the 'employee' category, an development which may skew the measurement of overall social disclosures somewhat. Equally, while disclosures about employees may be seen to be relevant in the context of the company's policies relating to HR, diversity, redundancy, etc, and which may allow some deductions to be made regarding the social performance of the firm, lengthy disclosures about remuneration, share options, and pension contributions add little to this debate.

The notion that the compilation of non-financial reports are primarily for PR purposes is a common proposition in the literature, as already highlighted. It was hoped that, by examining the way the reports were compiled, I would be able to gain insight into this claim. Equally, whilst there is little doubt that the financial markets are interested in the financial statements within the Annual Report, there is some doubt as to the audience within the City for non-financial information. Using a slightly different approach to test the same hypothesis, the engagement with the awards or ranking schemes could be used as a test of the PR value of the report, since the whole structure of such schemes is to impart maximum PR impact.

The other proposition in the literature, that stakeholder engagement was a ruse for stakeholder management (Bebbington, 1997) was also tested to examine how the practice of dealing with stakeholder concerns related to a genuine concern for the desires of concerned individuals or groups, or whether it was no more than just another issue that had to be managed in the most efficient way.

10.4 Adopting a Critical Approach

One of the issues which became a matter of concern as the interview programme progressed was about my own attitude to what I was being told by the interviewees. At several points I was concerned that I might be compromising my own integrity by not challenging the interviewee when I considered a statement to be either logically inconsistent or, at times, somewhat nonsensical. For example, when discussing with one interviewee the possibility that the sustainability reports were largely for the purposes of PR, and having this denied, the interviewee, when asked who wrote the report announced without a hint of irony, that it was written by journalists at a PR company, 'because we are not writers'. At that point I could feel my level of intolerance rising and I wanted to point out that the PR company that produced the report was a PR company! However, I did not, sensing that the interviewee genuinely did not see the problem. For him, it was a logical thing to do. Annual and other reports, in this case also to impart a particular style across all the company publications, went to another company to produce.

Indeed, in examining the Annual Reports of all the companies over the previous five years I became aware of a separate issue which gives some weight to that approach. Firstly, as I looked though each of the companies' annual report I became aware that, in design terms, there were similarities between the appearance of the reports of certain companies. When I checked who had prepared the reports it emerged that the same PR consultancy had been engaged. This then led me to look more closely at the PR companies involved in the publishing of the reports and found that among the sample of 12 companies, only 5 PR consultancies were involved. I then looked to see if I could identify when a company had changed the PR consultancy, and in some cases it was clear. I did not spend too much time on this, but the exercise suggested that, in the minds of senior management, the choice of the PR consultancy that could best portray the company as it wished to be observed, was important. It occurred to me that that this seemed a normal part of strategic corporate behaviour at this level, and that it was likely that the dilemma of factual representation against PR was not one that might exercise the minds of top management for too long.

I also believed that there had to be a measure of pragmatism in the interaction with the interviewees. I did not wish to come over to the interviewee as some form of investigative journalist, or representative of an anti-corporate NGO. Whilst being fairly sceptical about corporate engagement with moral issues in general, I did not think that a confrontational approach was either appropriate or likely to be helpful in my research. My purpose was to hear their stories and induce from these stories firstly, whether they added to my knowledge of the subject area, and thereafter if they could help me build theory around this knowledge.

10.5 Discussion on the Implications of the Interview Study

There are a number of impressions left at the end of this series of interviews, and they relate to a number of levels. Firstly, from a purely company point of view, the interviews not only confirmed a number of attributes already identified in the literature, but perhaps helped explain why that might be. For example, the connection between company characteristics is well established (Trotman and Bradley, 1981, Ahmed and Courtis, 1999, Gray et al., 2001), and the notion that big companies disclose more than small companies is rationalised in this study in terms of reputation and the avoidance of risk. There seems to be a division between high disclosing companies who seem to have an instinctive 'feel' for the value of such behaviour in terms of improving stakeholder relations, building reputation and branding, and the other companies which are not so sure of the links and which are nervous about changing their policies, which they see as having served them well enough in the past. For example, in the case of Company 11, which is involved in major construction projects world-wide, and whose corporate social disclosure (other than mandatory corporate governance disclosure) stretched to one sentence in the Annual Report, the interviewee felt that any proposal for more open disclosure would be resisted by the board on the grounds that it is unnecessary, and might possibly create interest in areas in which the company would rather not become embroiled in debate.

When this stance was discussed with another interviewee, however, the suggestion was made that in the future pressure on low disclosing firms to change to a higher level of disclosure was as likely to come from other major companies who offered contracts and who needed to satisfy themselves in terms of social environmental policies to ensure adequate quality levels throughout the chain of supply. We now know that this is the course that has been followed, and that the trend of increasing levels of disclosure has expanded across sectors and within sectors.

Equally, from a company viewpoint, risk and governance still appear to be drivers of disclosure and the notion that disclosure can be used to stave off regulation (Friedman and Miles, 2001) is still strong. In the same way, regulation is criticised in the case on at least one utility company which wished to build more wind farms but could not under extant regulations, and adopted a lobbying stance with government to get its voice heard. One assumes that policymakers would not be persuaded by company disclosures in Annual Reports alone!

However, from a societal point of view, the impression gained from the interviewees is very much one of 'business as usual', with sustainability and social concerns being considered as an addendum. There is little doubt left in my mind that social reporting is a way of creating a ‘feel good’ factor within the minds of the Board of Directors. Although it is unlikely that many company directors have social constructionalist leaning, it seems to apply in the context of social reports, where the reality of corporate activity, as evidenced in the science of climate change presents a totally different interpretation on what has to be done.

In essence, it is as if each company does not realise the inter-connected nature of life systems, and that each of them can operate in a sphere of splendid isolation which would have made Disraeli proud. Accountability is clearly viewed through agency theory lenses, with the shareholder supreme. Equally, financial institutions are reluctant to disrupt shareholder meetings by supporting troublesome resolutions, or taking a lead in looking for change. This theme will be further discussed in Chapter 11.

10.6 Company positioning since the interviews

Since some time has lapsed since the interviews took place it is a reasonable proposition to examine the present position of the case companies and reflect on any alterations in positioning with regard to social and environmental issues.

Firstly, it is of note that three of the companies that featured in the study no longer exist as PLCs in their own right but have been either taken over by other PLCs or been taken, in whole or in part, into private ownership. Secondly, it will come as no surprise that all the remaining companies have high profile, web-based statements on social responsibility issues[97].

The one company that stood out in the study as having no public profile in the Annual Report on social and environmental issues, Company 11 (construction), has since developed a policy on sustainable development which is worthy of comment (the focus on this section may also serve to highlight the positioning taken by other case companies who have adopted similar strategies, in certain areas of operation. In this case, the strategy covers all areas, since there was no publicly discernable policy before). At the time the

[97] In a recent study it was found that all FTSE companies had web-based social responsibility statements on the corporate website (Murray, 2009a)

interview took place, whilst acknowledging that there was no public profile on such issues the interviewee stressed that within the company intranet, considerable emphasis was given to social and environmental matters, as they were perceived as likely to be of interest to employees. There was a reluctance to make the policies public out of a general distrust of publicity, and an impression within the company that there position was difficult to justify:

> '.. I think we are by definition, an industry which is not outgoing…the bottom line for me is that I don't think we're environmentally friendly, I think we can dress ourselves up but I don't think we are environmentally friendly..'
> Corporate Affairs Director, Company 11 (Construction)

However, it was only in the following year (2002) that the annual report of the company began to report social issues and environmental issues in particular. The company had become engaged in a number of high profile construction projects in some sensitive areas globally, and clearly a decision was taken to increase disclosure. This was in line with the trend which began to develop through the first decade of the new century, and continues. Today, they are part of the Dow Jones Sustainability Index, the Business in the Community Responsibility Index, and have dedicated space on their website to outline initiatives in various parts of the world. They published their first sustainability report in 2006, and it is now an annual publication. Their position on sustainability is reported thus:

> 'Sustainable development is shaping our business everyday; it is at the heart of (our) values and Guiding Principles. In years to come, we believe that the only truly successful businesses will be those that achieve a sustainable balance between their own interests and those of society and the natural world.
>
> We consider sustainable business practice as the balancing of economic, environmental and social responsibilities in a manner that meets the needs of our stakeholders, without harming the ability of future generations to meet their needs. Everyone at (the company) has a role to play in making

> our company more sustainable. We aim to ensure that sustainable business principles filter into every level of our business and culture.'[98]

Since the interview they have also developed 'Guiding Principles' relating to the value they place on their employees, sustainable development, integrity, and 'aspiration to excellence'.

It seems clear that, early in the decade, the company reappraised its position and whether from internal or external pressure, decided not only to make detailed disclosures, but there is evidence of a restructuring of activities to include 'Earth and Environment' at the same strategic level as 'Natural Resources' (Oil, Gas and Mining), 'Power and Process' (Power Generation, including Nuclear), and 'Investment and Other'. Each division is responsible to a director who reports to the board. In this way the company suggests that environmental issues are at the forefront of their thoughts and strategies.

As noted above, this focus is shared by other companies within the sample, and others have taken a similar approach to disclosing the nature of their activities and in publicising the various initiatives at which they achieve some form of external recognition. Among these indices, and given publicity on web pages are: the UN Global Compact, FTSE4Good, DJ Sustainability Index, Business in the Community Corporate Responsibility Index, The Price's Rainforest Project, UNICEF, the Forest Stewardship Council, and the Rainforest Alliance. It seems quite clear from this that there is a strong publicity and PR strategy at play, enhancing positives aspects of these initiatives, while avoiding discussion of the more controversial activities of the company, for example, in the case of Company 11, its involvement in tar sands projects. Logos from the various initiatives is emblazoned across company web-pages and act to capture the attention of the reader by diverting attention to the positive aspects of corporate activity endorsed by the NGO sponsoring the initiative.

This serves to confirm the emerging consensus in the sustainability literature that such practice is more concerned with legitimacy and stakeholder management than in discharging accountability (Gray et al., 1995b, Gray et al., 1996, Bebbington, 1997, Bebbington, 2001, Birkin et al., 2005). Indeed, the analysis of Spence (2007), in examining the motivations for social reporting, is largely confirmed in terms of the language used and

[98] See: www.amec.com/aboutus

the underlying rationale for disclosure which is discussed. These, outward looking, web-pages are used to project an image of the company aimed at both reassuring stakeholders (one assumes that the assumed audience would be largely supportive to the corporate aims) or deflecting attention away from problematic area of operation. The features of the information disclosed mirror the critique of social and environmental disclosures over time, i.e. they are partial, biased and rarely linked to any financial or quantitative data to support the contentions.

The period since the interviews took place have seen a dramatic rise in the incidence and coverage of social, environmental and sustainability issues by corporations (see, for example, UNEP/SustainAbility/Standard&Poors, 2006, KPMG, 2008). In a recent survey, it was established that all FTSE 100 companies now report on such issues on their corporate websites (Murray, 2009a). This raises a number of issues relating to content and relevance of the disclosure in the context of web-based information dissemination. Even a cursory look at corporate websites reveals how incomparable the information provided is among companies. ‘Hard-copy’ reports at least allowed comparability at certain levels – web-based disclosures create new challenges for researchers. Intuitively, since web-sites exist to fulfil a publicity and information function, it is unsurprising that the disclosures in the field of social and environmental matters is covered in the same way – there is little obvious focus on discharging accountability.

10.7 Chapter Summary

The purpose of this Chapter was to reflect on the interview findings, link back to rationale outlined in Chapter 7 in relation to the hermeneutic approach, and develop some impressions on the contribution of the interview findings to previous findings in the literature. In order to examine developments in the period since the interviews were conducted, the disclosures of the companies, now easily accessible through company websites, were examined. It was found that all companies now have extensive disclosures of social, environmental and sustainability data. However, the overwhelming impression left from engaging with this data, is that it serves to further extend the image of the company in terms of its interaction with favoured stakeholder groups, and avoids confronting the real challenges of sustainable development – reduced resource use, and improving social justice, much in the way expressed by Gray (2006b).

In Chapter 11 further consideration will be given to the totality of the study and where the results stand in terms of extending the literature, and providing a contribution in terms of methodology and knowledge in this field of study.

Chapter 11

Conclusions

11.1 Introduction

In this Chapter I will review the rationale for the study, the approach taken, and also the results of the two investigations undertaken to interrogate the underlying research question. The findings of the studies will be considered and I will then discuss the contribution this thesis makes in understanding this field of study. I will further discuss the limitations of the study and suggest future areas of research. In an epilogue I will then reflect on the thesis as a passage of personal development and learning and discuss my own research plans going forward.

11.2 Context

The context in which this study is placed is of supreme importance. It revolves around issues of moral choices and ethical behaviour. The world is facing an impending crisis brought about by climate change. What has to be emphasised is that the science has been clear for some time. The IPCC Third Assessment in 2001 (IPCC, 2001) was very strong in linking climate change with industrial activity. As I began to write up this thesis there was a consensus beginning to grow that business could not carry on in its usual way, placing short-term returns above the quest for a sustainable way of doing business going forward. There is little dispute now, in the wake of the IPCC Fourth Assessment (IPCC, 2007), that if we continue to 'business as usual', there will be, in the latter part of this century, or maybe sooner, a massive destabilisation of the global geo-political and economic system. Massive potential changes, economic downturns equal or greater to what we seen in the fiscal crisis of 2008-9 are easy to foresee. It is likely because we can predict with some certainty that populations will rise, that sea levels will rise, that rainfall patterns will change, that deserts will increase in size, and therefore that the proportion of fertile land left to sustain this growing global population will diminish. This is likely to result in global economic destabilisation. As populations in these areas migrate on a large scale. Furthermore, economic models, such as the ones used by Sir Nicolas Stern in his review(Stern, 2007) are inadequate in predicting the scale of the economic destabilisation which is likely to result. His report talks of reductions in GDP of around 5% per annum, but the tone of the report rather plays into the hands of the sceptics rather than galvanising business into action. This is due to the fact that, in attempting to model change 50 to 80 years hence, the arguments begin to revolve around the model itself: the discount rates, the parameters, the variables used in the modelling process, etc.

However, as policymakers seek further scientific evidence (the call is already out for scientists to take part in the IPCC Fifth Assessment) it is the contention within this thesis that capital markets are key to any reversal in climate change policy. Global capital markets, fuelling global commercial and industrial activity, driven by a neo-classical model which demands continual growth, and all fed by data provided by accounting systems, place financial reporting at the heart of this problem. Equally, the way in which companies prepare and disseminate information, and the way markets receive and impound that information in trading decisions is crucial to any changes that might take place.

11.3 The first study

It is in this context that this study examined previous research into the connection between social disclosure and financial performance. Ullmann (1985), reviewed the literature to that point, including the literature that looked at the link between social disclosure and social performance, and entitled his study, 'Data in search of a theory'. Successive statistical examinations since have added little to this field of enquiry, prompting Griffin and Mahon (1997) to remark that the debate marked, 'twenty five years of incomparable research'. A number of reasons were posited for this, and a perfunctory look at Appendix 1 reveals that that by virtue of the mix of data sources, dependent and independent variables, statistical methods employed, etc, any notion of a consensus would be unlikely. Of similar importance was the diversity in the purpose of the studies. Many were 'typical' finance studies, designed to examine investor behaviour and to test investment preferences. Only a few attempted to link capital market activity with 'ethical' research questions. However, following a lengthy review of the literature, and taking account of the inconclusive and conflicting nature of the results, the question remained, and formed the central research question of this thesis: do markets place a value on companies' social and environmental activities?

Following the review of the literature, most of which used cross-sectional US based data, the first study in this thesis looked at longitudinal data over a ten year period, plus cross-sectional data, based on the CSEAR database of social disclosures of the top hundred UK companies in 'The Times 1000' list. Because of the focus on importance of markets in the sustainability debate, share returns were used as the dependent variable. It was hoped that by examining relationships over time, some more tangible results might be revealed. The data was tested for linear and non-linear relationships. What was hoped was that the use of annual data might at least suggest an association between share returns and a predisposition on the part of some companies to make social disclosures. This was not evident. Indeed it was only in a further study (Murray et al., 2006) where coded data were tested and significant results revealing such an association were found.

However, the process of data collection, proxy selection, coding and examination led to a re-evaluation of the direction and methodological focus of the thesis. It was clear that the practice of preparing reports on social and environmental policies had grown over the period of the study, and continued to do so after this period. A conviction grew that a further statistical examination would be unlikely to explain why this was the case or address further the research question, and a new approach was undertaken.

11.4 The move to a mixed methodology approach

This was clearly a significant development in the progress of the study, as I became aware of the ontological difficulties presented by positivist approaches to issues of social disclosure. My conviction that a more relevant understanding of the underlying practice of disclosure would be better served by moving to a qualitative assessment of the phenomenon, led me to the social science appliance of the hermeneutic method. This led to an examination of the development of the hermeneutic turn in the social sciences and engagement with the writings of Heidegger, Gadamer, and Ricoeur in particular, and the construction of an approach to a research project which would operationalise the method. There had been calls made in the accounting literature for this approach to be adopted (Boland, 1989, Llewellyn, 1993), and in the management literature the method had been subject to a greater degree of scrutiny and development, most notably by Skoldberg (1998) and Alvesson and Skoldberg (2000), who expand on Gadamer’s (1989) arguments and develop Ricoeur’s (1981) analysis to suggest how management research might benefit from the application of the hermeneutic method. Alvesson and Skoldberg (2000) urge researchers to follow Ricoeur’s (1984) thesis that narrative and metaphor are ‘intimately linked in an encompassing political sphere’ (p.88). This was a persuasive hypothesis, and in the case of company disclosures, overtly political in nature since, in the context of this study was inexorably connected with environmental depletion, if not destruction.

Equally, the notion of *pre-understanding* as a condition of *understanding* was persuasive as I held concerns over the notion, expressed in terms of grounded theory research, that one could approach anything without some idea of its meaning or function, based on experience, prior knowledge, etc. It seemed intuitive to me that to gain an understanding or meaning of a particular phenomena, prior knowledge and preconception was an inescapable part of the process.

In constructing an approach to a qualitative examination of the phenomenon of voluntary social disclosure I was conscious to take note of a number of factors which might detract from the choice of this method, since it was not an acknowledged method of choice within management research, and some issues had been queried in various presentations of my research.

In constructing my approach I was influenced by Madison's (1988) principles relating to issues such as coherence, appropriateness, contextuality and thoroughness, in order that the study, though qualitative in nature and subjective in interpretation could, by the application of these principles, be seen to be rigorous in execution. I was also conscious that the study should be placed in the context, outlined in the opening chapters of this thesis, of the major issues facing the natural world in the coming decades, and the part corporate activity plays in this.

11.5 The second study

The second study comprised a series of semi-structured interviews with participants on both sides of the market, to examine the extent to which the needs of the market participants were being met by the disclosures made by companies, and which might address the issue of the intended or expected audience for such reports. Care was taken in contacting the appropriate managers/directors within the case companies, and background research on the both the individuals, where possible, and the company was undertaken prior to the interview taking place.

11.6 Findings

However, the key findings largely confirmed what we might have surmised by intuition. In general terms with regard to company disclosures:

- companies are not entirely sure who their audience is meant to be
- PR plays a large part in the reporting of non-financial issues
- awards and ranking schemes serve mostly to further enhance PR opportunities for companies
- financial performance comes first

and with regard to market activities:

- the financial performance of the company is paramount
- social and ethical issues are relevant to ethical funds, but only to the point of screening
- social and ethical issues are only relevant otherwise if they highlight issues of risk or governance

Perhaps the most significant comments, however, were made by the final market participant interviewed who seemed to suggest that CSR issues are being subsumed within the wider grouping of corporate governance issues, suggesting that the stance taken by any company in relation to CSR reflects their attitude to what might be classed as good corporate governance practices, which give comfort to the market. It would be interesting to discover if this practice was particular to that one mutual company. If it was a widespread practice, then it would be interesting to know if the companies were aware of the importance given to it.

11.7 Contribution to Knowledge

The material covered in this thesis has already made an impact by virtue of publications which have appeared from it, and it is likely that further publications will follow. The first study engaged with and extended the literature on the link between social disclosure and financial performance (Murray et al., 2006). It was unique, to that date, in using longitudinal UK data, and it suggested the predisposition of certain companies to be high or low disclosers. As such, it suggested that social disclosures may not be wasteful on the part of management, nor may they therefore be ignored by markets.

In respect of the second study, the interpretive nature of hermeneutic enquiry informed a book chapter (Murray, 2008), and it is anticipated that this area of interpretive research methodology will be further explored.

The second study framed questions that had been identified from previous literature and which had been, in the main, derived from deductions from positivist studies. This study, by taking these questions to the people involved in making these decisions has contributed to the literature by adding richness to these findings.

The thesis, as a whole, informed two other publications, Blowfield and Murray (2008) and Murray (2009b) and it is anticipated that further publications, drawing on many aspects of the thesis will be forthcoming.

11.8 Future Research

Nearly a decade has passed since the interviews were conducted and, although capital market activity shows no evidence of supporting any move towards sustainable development (see, for example, Gray, 2006b), further research into corporate motivation is always likely to inform opinion in this area.

In the meantime, however, several further opportunities derive from the thesis itself:
A paper based on the literature review in Chapter 3, summarising and reviewing the accounting literature in relation to current research into Corporate Social Responsibility is planned to be submitted to a management review journal.

It is also planned to conduct a follow up series of interviews to present a 10-year comparison on the issues which were identified in the second study, and which are still of relevance today.

11.9 Epilogue

This thesis has taken longer to complete than either my supervisor or myself would have either wished or deemed ideal. The blame for that lies with me alone. I have undertaken a journey since entering academia which has led me to become involved in some very important activities for the sector of business and management. I have written a book, never the best strategy when a thesis is outstanding, served on the Executive Committees of important Learned Societies, and I have undertaken exciting projects in my University.

As a career path, this is not the way to do it, but maybe for someone at my particular stage in life, the course I have chosen has given me the chance to make a difference in a number of ways to a number of institutions and, hopefully a number of individuals.

Appendix 1: Social Disclosure, social performance and financial performance literature search

A	Relationship between Social Disclosure and Economic Performance								
	Author(s)	**Year**	**Purpose**	**Method**	**Features**	VARIABLES		**Controls**	**Sign**
						Social Performance	Economic Performance		
1	Belkaoui FM	**1976**	To test hypothesis that socially aware Co's are rewarded by Mkt.	Matched Pair study using residuals	50 firms with & without disclosure	Pollution Disclosures in AR	Mthly Avg residuals 12 ante and post	None	+
2	Ingram JAR	**1978**	To assess the impact of SD on investors	Matched pairs	287 Fort 500 firms 1970-76	Disclosures in AR E & E Firms	Monthly portfolio returns 9 mths prior/3 mths after fiscal Y?E	Earnings, year industry, beta time	+
3	Anderson & Frankle TAR	**1980**	To test empirically effect of SD on capital mkt.	Matched portfolios	a la Fama, Jensen G&D, G et al 314 of 1972 Fortune 500	Overall dis. based on E&E	Monthly return diff'ces.	Beta (iso-beta p)	+

A	Relationship between Social Disclosure and Economic Performance contd.								
	Author(s)	**Year**	**Purpose**	**Method**	**Features**	**VARIABLES**		**Controls**	**Sign**
						Social Performance	Economic Performance		
4	Jaggi & Freedman Financial Review	**1982**	To examine impact of pollution disclosures by polluting firms	Matched pairs regression	109 firms from 4 pollution intensive 84 disclosing 21 non.	Poll. Dis in AR and 10K	Mthly avg residuals 8 mths prior/after dis.	Other dis. Beta	+
5	Shane & Spicer TAR	**1983**	To test MR to external disclosures	Event study	mean adjusted returns 72 of 103 firms from CEP sample	CEP Index	Std'ised ab. mean adj. daily ret's for 6 days around release days	X sect. correl.	+
6	Mahapatra JBFA	**1984**	To test LT market response to CSR	Ranking study Spearman	Ethical investor v. rational investor 67 firms, 6 industries 1967-78	Pollution control expend	Average Market returns Risk and expenditure	None	-

A	Relationship between Social Disclosure and Economic Performance contd.								
	Author(s)	**Year**	**Purpose**	**Method**	**Features**	**VARIABLES**		**Controls**	**Sign**
						Social Performance	Economic Performance		
7	Stevens Adv in Accg	**1984**	Information content of SD	Matched portfolios	48 companies - CEP firms 1972-77	Future env costs Env. practices	monthly returns		+
8	Holman, et al Adv in PIA	**1985**	To test SD and share returns	Regression	49 Fortune 500 Cos. 1973-77	E&E RCCEI index	TTR		-
9	Newgren et al Research in CSP&P	**1985**	To test MR to environmental assessment	ANOVA between Co's using EA & those not.	50 companies/ 10 sectors 1975-1980	EA	P/E	Beta	+
10	Freedman and Jaggi Adv PIA	**1986**	MR to Pollution disclosures	Event study	88 firms from 4 polluting industries High disclosers and Low	Pollution Expenditure	CAR	None	0

A	Relationship between Social Disclosure and Economic Performance contd.								
	Author(s)	**Year**	**Purpose**	**Method**	**Features**	**VARIABLES**		**Controls**	**Sign**
						Social Performance	Economic Performance		
11	Belkaoui and Karpic AAAJ	**1989**	To test SD-SP SD-EP SP-EP	Regression	23 firms	SD E&E	Various		0
12	Patten AOS	**1990**	test of trading volume or returns of cos signing to the Sullivan Principles	Stock volume study cf.Beaver 1968	37 companies whose signing was disclosed	trading volumes	days -4 to +2		0
13	Blacconiere & Patten JAE	**1994**	Examine MR after Bhopal on firms in the Chemical Ind.	Analysed 10K reports looking for disclosures above minimum. NYSE	47 firms - SP change in 5 day period around Bhopal	SD	CAR		+
14	Blacconiere & Northcut JAAF	**1997**	MR to Superfund Act	Event study & and cross-sectional and sensitivity analyses	72 firms in chemical industry	Env Dis	CAR		+

A	Relationship between Social Disclosure and Economic Performance contd.								
	Author(s)	**Year**	**Purpose**	**Method**	**Features**	**VARIABLES**		**Controls**	**Sign**
						Social Performance	Economic Performance		
15	Al-Tuwaijri et al. AOS	**2004**	test ed/ep/ecp	Sim. Equations	198 Co's listed in IRRC directory	Data from IRRC	AR	industry	+

B	Relationship between Social Disclosures and Economic Performance: Accounting Variables								
	Author(s)	**Year**	**Purpose**	**Method**	**Features**	**VARIABLES**		**Controls**	**Sign**
						Social Performance	Economic Performance		
1	Bowman & Haire Cal. Mgt Rev	**1975**	To see if SD is proxy for SP	Comparison of SD with ROE	82 firms in food processing	Content Analysis % of prose	ROE 1972-1974	None	U
2	Fry & Hock Bus & Soc Rev	**1976**	Are disclosing Co's subject to pressure? Which industries stress responsiveness? Is there a link between SP and EP	Content Analysis Ranking of industries by business students No details of tests given	135 firms from 15 industries	Social disclosures Quantity	Sales, net income, equity assets	Size, industry image	+
3	Bowman Cal Mgt Rev	**1978**	Is EP (success) related to related to strategic posture?	Content Analysis Matched pairs bi-nomial matched pair test	46 firms from electron. computing	Content Analysis % of prose	ROE 1972-1974	None	0

B	Relationship between Social Disclosures and Economic Performance: Accounting Variables contd.								
	Author(s)	**Year**	**Purpose**	**Method**	**Features**	**VARIABLES**		**Controls**	**Sign**
						Social Performance	Economic Performance		
4	Preston J of Cont Bus	**1978**		Survey of SD by a masters student	SD analysis of 33 oil Companies in 1975	Q'tity of disclosures in 2 trs between 1971-1975	1975 ROE	None	-
5	Abbot & Monsen AoM J	**1979**	To test link between SD and reputation index.	Content Analysis Social Dis. scale BSRI Ernst & Ernst	450/494 of 1973 and 1974 Fortune 500 Quality SD categories Sector Differences 23(22 firms - common to both samples)	Overall scone based on E&E	ROE 1964 -74	Size	0
6	Ingram & Frazier JAR	**1980**	To test the link between SD and EP	SD measured then compared to perf. indices	79 firms - metals, oils chemicals	Content Analysis (Computerised)	Factor analysis of 48 accounting ratios	Size, Stock ownership dist.	-

B	Relationship between Social Disclosures and Economic Performance: Accounting Variables contd.									
	Author(s)	**Year**	**Purpose**	**Method**	**Features**	**VARIABLES**		**Controls**	**Sign**
						Social Performance	Economic Performance		
7	Freedman & Jaggi 1982 Omega (INT'L J OF MGT SCI)	**1982**	To test SD, SP and FP	Rank correlation	109 firms of pollution intensive industries in 1973 and 1974	Q'tity & Q'lity of Pollution disclos. in AR and 10K	ROA, ROE, C/Flow/Ass EBIT/A, EBIT/E 1973-74	None Size	0
8	Freedman & Jaggi AAAJ	**1988**	To explore link between SD and EP	Ranking study CEP	81 firms 1973 and 91 for 1974	Pollution expenditures	ROA, ROE, Cash return o Assets, etc		0
9	Belkaoui and Karpic AAAJ	**1989**	To test SD-SP SD-EP SP-EP	Regression	23 firms	SD E&E	Various		0
10	Roberts	**1992**	test SD - EP	regression/correlation	130 firms - 84,85,86	Various SD	Various		+

C	Relationship - Social Disclosure and Social Performance								
	Author(s)	**Year**	**Purpose**	**Method**	**Features**	**VARIABLES**		**Controls**	**Sign**
						Social Disclosure	Social Performance		
1	Bowman & Haire AOS	**1976**	To relate CSR to profit To suggest a strategic posture	Content analysis Moskowitz	No. of lines in AR 14 matched pairs	% prose in AR	Mosk (72) rep. scales	None	+
2	Fry & Hock Bus. Soc. Rev.	**1976**	To examine motivation for SD	Content analysis 135 Annual Reports	Noted inter sector disclosure differences 135 firms in 15	Q'tity of dis in AR	Students evaluation	Size	-
3	Preston Jnl Contemp.	**1978**	1. Discuss methods of analysis of SP 2. To discuss impact of SR	Content Analysis Moskowitz Ernst & Ernst	As above 41 firms - 2 samples	SD scale from E&E	Mosk (72) rep. scales	None	0

C	Relationship - Social Disclosure and Social Performance contd.								
	Author(s)	**Year**	**Purpose**	**Method**	**Features**	VARIABLES		**Controls**	**Sign**
						Social Disclosure	Social Performance		
4	Abbot & Monsen Acad of Man Rev	**1979**	To test link between SD and reputation index.	Content Analysis Social Dis. scale BSRI Ernst & Ernst	Quality SD categories Sector Differences 23 (22 firms common to both samples)	SD scale from E&E	B&SR reputation scales	None	+
5	Ingram & Frazier JAR	**1980**	Investigates the relationship between disc. and perf.	Content Analysis CEP	Standardised scores to control inter-sector differences. 40 firms of CEP sample	Pollution dis. in AR	CEP	None	0

C	Relationship - Social Disclosure and Social Performance contd.								
	Author(s)	**Year**	**Purpose**	**Method**	**Features**	**VARIABLES**		**Controls**	**Sign**
						Social Disclosure	Social Performance		
6	Peltzman J of Law and Econ	**1981**	To test link between SD (false advertising) and FP	Series of event studies	23 violations	Complaints of 'false advertising	SP	Market returns	0
7	Wiseman AOS	**1982**	To evaluate the quality and accuracy of SD in AR	Content analysis Spearman rank test CEP	Noted inter sector disclosure differences 26 firms of CEP	Q'tity & Q'lity of pollution dis. in AR	CEP	None	0
8	Freedman & Jaggi 1982 Omega (INT'L J OF MGT SCI)	**1982**	To test SD, SP and FP	Rank correlation	31 of 109 firms of pollution intensive industries in 1973 and 1974	Q'tity & Q'lity of Pollution disclos. in AR and 10K	Pollution Expenditure	None Size	0

C	Relationship - Social Disclosure and Social Performance contd.								
	Author(s)	**Year**	**Purpose**	**Method**	**Features**	**VARIABLES**		**Controls**	**Sign**
						Social Disclosure	Social Performance		
9	Rockness JBFA	**1985**	To examine the accuracy of voluntary statements in AR's	Content Analysis Spearmans ranking Corr. CEP	4 sets of participants 26 firms in CEP	SD	Clean up exp.	none	0
10	Rockness et al APIA	**1986**	To examine the link between 1 SD and FP 2 Extent of SD	Ranking study	21 companies from chemical sector.	Expenditure on clean up	Operating performance Asset size and age solvency		0
11	Belkaoui and Karpic AAAJ	**1989**	To test SD-SP SD-EP SP-EP	Regression	23 firms	SD E&E, B&S Rev	Various		0
12	Freedman & Walsey Adv. in PIA	**1990**	Examines corr. between amount/ quality of SD and SP	Scoring system Spearman rank corr. CEP	Ratings as per Wiseman 1982 50 firms in CEP	Pollution disclosures	Pollution performance		0

D	Relationship - Social Performance and Economic Performance								
	Author(s)	**Year**	**Purpose**	**Method**	**Features**	**VARIABLES**		**Controls**	**Sign**
						Social Performance	Economic Performance		
1	Bragdon & Marlin Risk Mgt	**1972**	To relate SP to EP	Firms rated on pollution index and index compared to ROE CEP	17 firms included in CEP	CEP	Avg ROE 1965-1970 Avg ROC 1965-1970 EPS growth 1965-1970	None	+
2	Moskowitz Bus & Soc Review	**1972**	To relate SP to EP	Simplistic comparison of S.P. increases in M's 'high CSR firms' with avg DJ index	14 firms	n.a.	Share price change Jan -June 1972	None	+
3	Bowman & Haire Cal. Mgt. Review	**1972**	To relate SP (CEP) to ROE	CEP	15 Firms included in CEP	Pollution exp.	Median ROE 1969-1973	None	U

D	Relationship - Social Performance and Economic Performance contd.								
	Author(s)	**Year**	**Purpose**	**Method**	**Features**	**VARIABLES**		**Controls**	**Sign**
						Social Performance	Economic Performance		
4	Fogler & Nut AoM J	**1975**	To test for relationship between Pollution index and P/E	X section regression	9 firms included in CEP Based on Bragdon & Marlin	Pollution Exp.	Normalised P/E ratios 3-71 3-72 Mutual fund purchases s/r stock prices	None	0
5	Parket & Eilbert Bus. Horizons	**1975**	To relate SP (Respondents to survey) to Fortune 500	Assumption that 96 firms previously to survey are CSR firms.	80 Fortune 500 firms compared against Fortune 500	Existence of Soc. Resp Programs	Net Income Net profit margin ROE, EPS	None	+
6	Vance Mgt. Review	**1975**	To relate SP to EP	Replicating Mos. Correlating CSR firms in BSRev. with 'S.P. changes	14 firms on Mos.'s list 45(50) firms from surveys	Mos. Rep Scales BSR Scales	SP changes 1972 - 75 PPS changes 1974 - 75	None None	- -

D	Relationship - Social Performance and Economic Performance contd.								
	Author(s)	**Year**	**Purpose**	**Method**	**Features**	**VARIABLES**		**Controls**	**Sign**
						Social Performance	Economic Performance		
7	Heinz ABER	**1976**	To relate CSP with FP	Correlating CSR ratings of 29 firms from B Soc Rev with ROE		Ratings from B&S review	ROA ROE Profit Margins		+
8	Sturdivant & Ginter Cal. Mgt. Rev.	**1977**	To relate CSP with FP	67 high CSR (by Mosk.) firms reduced to 28 Re-class. into 4 industrial groups	67 companies. Attitude survey then compared with 10 year earnings	Mos.	EPS growth 1964-1974	Industry	+
9	Alexander & Buchholz AoM J	**1978**	To relate CSP with FP	Replicating Vance study over 5 years	14 firms	BSR scales Industry rates Itself	Stockholder return 1970 -1974	Beta	0
10	Spicer TAR	**1978**	To test link between investment value and SP (Pollution Exp)	Replicating Vance - CSR ratings correlated with SP increases over time	18 firms in CEP	CEP	ROE, P/E ratio total risk, beta 68-73, 69-71, 71-73	None	+

D	Relationship - Social Performance and Economic Performance contd.								
	Author(s)	**Year**	**Purpose**	**Method**	**Features**	**VARIABLES**		**Controls**	**Sign**
						Social Performance	Economic Performance		
11	Spicer JBFA	**1978**	To test whether SD conveys information about risk	Spearman rank correlation Stepwise regression	18 firms in pulp and paper	CEP	Total risk, beta 1968 - 73	None (1)Earnings var. (2) Size (3) Leverage (4) Current	-
12	Abbot & Monsen AoM J	**1979**	To relate CSP with FP	Content Analysis Social Dis. scale BSRI Ernst & Ernst	Quality SD categories Sector Differences 450 of Fortune 500	SD scale from E&E	B&SR reputation scales	None	0 weak
13	Chen & Metcalf TAR	**1980**	Re-working of Spicer 1978a data		18 firms n CEP	CEP	ROE, P/E ratio, total risk beta 68-73, 69-71, 71-73	Size	+

D	Relationship - Social Performance and Economic Performance contd.								
	Author(s)	**Year**	**Purpose**	**Method**	**Features**	**VARIABLES**		**Controls**	**Sign**
						Social Performance	Economic Performance		
14	Kedia & Kuntz Res in CSP v.3	**1981**	SP-FP	ANOVA	30 banks in Texas	Existence of Soc. Resp Programs	Income before security gains/losses, taxes/total assets	None	0
15	Fry, Keim, and Meiners AoM J	**1982**	To test donations and advert. and FP	ANCOVA	36 industry groups 1946 - 1973	Donations (advertising)	Earnings		0
16	Cochran & Wood AoM J	**1984**	To test SP FP link	ANOVA	1. 39 compared to 386 2. 36 compared to 366	Mosk.	OP. earnings/sales Op. earnings/assets Excess mkt val. 70-74, 75-79	Asset age Asset t/o	0

D	Relationship - Social Performance and Economic Performance contd.								
	Author(s)	**Year**	**Purpose**	**Method**	**Features**	**VARIABLES**		**Controls**	**Sign**
						Social Performance	Economic Performance		
17	Newgren et al. Adv in PIA	**1985**	To test SP and FP	Matched pairs	50 Co's	EA	P/E		+
18	Aupperle et al	**1985**	To test SP and FP	Forced choice survey	Factor analysis 241 CEO's	Carroll's criteria	ROA		0
19	Marcus and Goodman Adv in PIA	**1986**	To test SP and FP Pollution regs. compliance	ANOVA Discriminant analysis	48 companies 1973 - 7977 2 case studies	Pollution emissions	ROA, ROE		-
20	Spencer and Taylor Akron BER	**1987**	To test SP and FP	Within and Between Analysis	130 companies	Fortune reputation	ROA ROS		+

D	Relationship - Social Performance and Economic Performance contd.								
	Author(s)	**Year**	**Purpose**	**Method**	**Features**	**VARIABLES**		**Controls**	**Sign**
						Social Performance	Economic Performance		
21	Wokutch and Spencer Cal MR	**1987**	To test SP and FP	Fixed effects ANOVA 4 groups - saints, pharisees, cynics, sinners	111 companies	Fortune	ROA ROS		+
22	Davidson and Worrell AoM J	**1988**	Test SP and FP	Event study on corporate illegalities as proxy for SP	96 companies, 131 events	Various crimes	Market reaction -90 - +90 days		-
23	Lerner and Fryxell JBE	**1988**	To test SP and FP	Regressions	113 firms 1986 CEP ratings	Donations, SD	Various accounting measures		0
24	McGuire et al. Acad. Mgt. Jnl.	**1988**	To examine the relationship between CSR and FP past and present	Regression & Correlation	131 firms 20 - 25 industry groups 83 -85 data	Fortune Rep Index	ROA, total assets, sales growth, asset growth risk adjusted returns		0 +

D	Relationship - Social Performance and Economic Performance contd.								
	Author(s)	**Year**	**Purpose**	**Method**	**Features**	**VARIABLES**		**Controls**	**Sign**
						Social Performance	Economic Performance		
25	Hofferr, Pruitt and J of Pol Econ.	**1988**	To test Sp (Product recalls) with FP Reworking Jarrel and Peltzman	Event study	66 recalls	Product recalls	SP		0
26	Belkaoui and Karpic AAAJ	**1989**	To test SD-SP SD-EP SP-EP	Regression	23 firms	SD E&E	Various		0
27	Cottrill	**1990**	To test for link between SP and Industry	ANOVA	180 firms in 18 industries	Fortune	Earnings		0
28	Belkaoui Res. in CSP and Pol	**1991**	Empirical evidence to link SP and Econ P.	Regression Endos Morgan	139 firms across 23 industries 10 years of info				+

D	Relationship - Social Performance and Economic Performance contd.								
	Author(s)	**Year**	**Purpose**	**Method**	**Features**	**VARIABLES**		**Controls**	**Sign**
						Social Performance	Economic Performance		
29	Coffey and Fryxell JBE	**1991**	To examine relationship between inst. sh/h and csp (measured by no. of women on boards)	corr & regression	100 Fortune 500 firms	donations, women Sullivan Principles	Stock ownership		+ 0 -
30	Jaggi & Freedman JBFA	**1992**	To examine association of pollution and Ec. and Mkt perf.	Pearson correlation CEP	13 firms - pulp and paper	Emissions	5 indicators - Net Income, ROE ROA CF/E, CF/A		-
31	Riahi-Belkaoui JBFA	**1992**	SP and Executive compensation	Regression	155 firms from 28 industries	Rep. scales Fortune	sales, assets, exec pay		0
32	Herremans, et al	**1993**	To test CSR and FP CSR and risk CSR and SM returns	Correlations	1. 96 firms over 6 yrs 2&3 76 firms	Fortune	OP margin; net margin ROA; ROE CAR		+ +

D	Relationship - Social Performance and Economic Performance contd.								
	Author(s)	Year	Purpose	Method	Features	VARIABLES		Controls	Sign
						Social Performance	Economic Performance		
33	Cormier et al Ecol Econ	1993	test pollution exp and MV	Regressions	74 firms over 1986,7,8	Pollution info	MV		+
34	Graves and Waddock AoM J	1994	To test link between SP and institutional investment	Regression	430 firm from S&P	KLD data	ROE		+
35	Menzar, Nigh, Kwok	1994	Sp and FP Withdrawal from South Africa	Event study	40 companies	Withdrawal from SA	CAR		-
36	Hammond and Slocum JBE	1996	To test link between FP and subsequent reputation	Correlation and regression	2 time periods 149 firms	Fortune	ROE Beta		+

D	Relationship - Social Performance and Economic Performance contd.								
	Author(s)	**Year**	**Purpose**	**Method**	**Features**	**VARIABLES**		**Controls**	**Sign**
						Social Performance	Economic Performance		
37	Pava & Krausz JBE	**1996**	To explore association between SP and FP	CEP	53 CEP firms from 21 industries	CEP	Market & acc'g based		+
38	Baucus & Baucus AoMJ	**1997**	To explore association between SP and FP	Regression	74 firms Convicted	Baucus & Near dbase	Share ret. ROA,ROS		-
39	Boyle et al. CPA	**1997**	SP - FP	Event study	64 firms	compliance with ethical standards	CAR		-
40	Brown CRR	**1997**	Reputation and FP	Comparison	216 firms	Fortune MAC	SM returns	past fp	-

D	Relationship - Social Performance and Economic Performance contd.								
	Author(s)	**Year**	**Purpose**	**Method**	**Features**	**VARIABLES**		**Controls**	**Sign**
						Social Performance	Economic Performance		
41	Preston and O'Bannon B&S	**1997**	To explore association between SP and FP	Correlation	Fortune reputation index 10yr long. spread	Fortune	ROA		+
42	Griffin & Mahon B&S	**1997**	To explore association between SP and FP	Ranking study 7 co's	KLD, Fortune, TRI Corp Phil	KLD	ROE,ROA,TA, Asset age, ROS		0
43	Waddock and Graves B&S	**1997a**	To explore association between SP and FP	Correlations and Regression	Combination of Fortune and KLD ratings 812 observations 1990-1993	KLD criteria	Fortune data Total return ROE ROA	size, risk, industry	**+**
44	Waddock and Graves SMJ	**1997b**	To test link between SP and FP	Regression	Index weighted by experts 469 companies	KLD data	ROA ROE ROS	size risk industry	+

D	Relationship - Social Performance and Economic Performance contd.								
	Author(s)	**Year**	**Purpose**	**Method**	**Features**	**VARIABLES**		**Controls**	**Sign**
						Social Performance	Economic Performance		
45	Ahmed et al Mgt Dec	**1998**	To test link between SP and FP	Survey	655/10000 6.5%	survey			+
46	Balabanis et al	**1998**	To test link between SP and FP	Component analysis	56 co's 1984-94	NCG data	ROCE, ROE, GPS EMV, Beta	size	0
47	Brown CRR	**1998**	Reputation and FP	corr & reg	149-197 firms 1982-91	Fortune MAC	SM returns		+
48	Judge & Douglas **JMS**	**1998**	Test cost of bringing CSP into strategy	Questionnaire	196 responses 1993	self-report	ROI, earnings growth mkt share change	size	+

D	Relationship - Social Performance and Economic Performance contd.								
	Author(s)	**Year**	**Purpose**	**Method**	**Features**	**VARIABLES**		**Controls**	**Sign**
						Social Performance	Economic Performance		
49	Stanwick & Stanwick JBE	**1998**	To explore association between SP and Size, FP, and EP	Correlations	Firms listed in Fortune index 1987-92 111-125 Co.'s	Emissions	Sales,	size	**+**
50	Verschoor JBE	**1998**	FP and Ethics	Ranking study	376 companies	Statement of Ethical behaviour	Tot Return, Profit growth ROE, others		+
51	Berman et al AMJ	**1999**	SP and FP	Two step GLS	81 co's	KLD	ROA		+
52	Johnson & Greening AoM J	**1999**	To test link between SP and Inst. Ownership	Correlations	300 firms from KLD Database	KLD ratings	Shareholdings		+

D	Relationship - Social Performance and Economic Performance contd.								
	Author(s)	**Year**	**Purpose**	**Method**	**Features**	**VARIABLES**		**Controls**	**Sign**
						Social Performance	Economic Performance		
53	Christmann AMJ	**2000**	To test link between cost adv. & early purchase of comp. assets	Survey OLS	88 co.'s 1996	Env practices	cost advantage		+
54	Dowell et al Mgt Sci	**2000**	Compare performance of co.'s observing global best practice against poorer standards	Regression	89 firms 1994-97	Env practices	Tobin's q		+
55	Moore JBE	**2001**	SP and FP UK Supermarkets	Correlations	SD from AR and EIRIS 8 FIRMS	SD	Growth in T/O, Prof'it ROCE, EPS growth		- +
56	Richardson and Welker AOS	**2001**	To test link between SP, FP and Coat of capital	Regression	324 firm year obs. 1190-92	SD	D/E, ROE etc	size	+

D	Relationship - Social Performance and Economic Performance contd.								
	Author(s)	**Year**	**Purpose**	**Method**	**Features**	VARIABLES		**Controls**	**Sign**
						Social Performance	Economic Performance		
57	Cormier and Gordon AAAJ	**2001**	To test SP and FP and reporting strategies	Correlations	3 Utilities	SD in AR	Accounting measures Many		0
58	Ruf et al.	**2001**	To test SP and FP	Questionnaire 194/400	change only between 2 years 1991-92	KLD	ROE, ROS, Sales Growth		0
59	Campbell et al JBE	**2002**	To test link between SP and FP	Indicative research	598 Co's 1985-2000	Philanthropy	RoS		0
60	Moore & Robson BE:A ER	**2002**	SP and FP UK Supermarkets	Factor and cluster analysis	8 UK supermarkets	16 measures	ROCE		0

D	Relationship - Social Performance and Economic Performance contd.								
	Author(s)	**Year**	**Purpose**	**Method**	**Features**	**VARIABLES**		**Controls**	**Sign**
						Social Performance	Economic Performance		
61	Siefert et al JBE	**2003**	SP and FP	Matched pairs agency theory perspective	sample a - 34 pairs sample b - 31 pairs	Philanthropy	cash flow		0
62	Orlotkzki et al OS	**2003**	SP -FP	Meta-analysis	52 companies				+

E	Relationship - Social Performance and Economic Performance -- Event Studies								
	Author(s)	**Year**	**Purpose**	**Method**	**Features**	**VARIABLES**		**Controls**	**Sign**
						Social Performance	Economic Performance		
1	Peltzman JLE	**1981**	To test MR to SP False Accounting	Event study	FTC				
2	Garbade, et al Rev of Econ and Stats.	**1982**	To test MR to SP Lawsuits	Event study	DOJ and FTC				
3	Eckbo JFE	**1983**	To test MR to SP Lawsuits	Event study	DOJ and FTC				
4	Shane & Spicer TAR	**1983**	To test MR to SP Pollution Disclosures	Event study	mean adjusted returns 72 of 103 firms from CEP sample				

E	Relationship - Social Performance and Economic Performance -- Event Studies contd.								
	Author(s)	**Year**	**Purpose**	**Method**	**Features**	**VARIABLES**		**Controls**	**Sign**
						Social Performance	Economic Performance		
5	Strachan, et al Fin Rev	**1983**	To test MR to SP Domestic criminal misconduct	Event study	Domestic criminal misconduct				
6	Weir JFE	**1983**	To test MR to SP Lawsuits	Event study	DOJ and FTC				
7	Jarrell and Peltzman JPE	**1985**	To test MR to SP Product recalls	Event study					
8	Pruitt and Peterson JFR	**1986**	To test MR to SP Product recalls	Event study					
9	Davidson and Worrell AoMJ	**1988**	To test MR to SP Domestic criminal misconduct	Event study					

E	Relationship - Social Performance and Economic Performance -- Event Studies contd.								
	Author(s)	**Year**	**Purpose**	**Method**	**Features**	**VARIABLES**		**Controls**	**Sign**
						Social Performance	Economic Performance		
10	Hoffer, et al JPE	**1988**	To test MR to SP Product recalls	Event study					
11	Bromily and Marcus SMJ	**1989**	To test MR to SP Product recalls	Event study	4 periods 147 recalls				
12	Fry and Lee FR	**1989**	To test MR to SP H&S legislation	Event study					
13	Muoghalu et al Southern EJ	**1990**	To test MR to SP EPA Hazardous waste	Event study					
14	Viscusi and Hersch J Reg E	**1990**	To test MR to SP Drug lawsuit /Agent Orange Lawsuit	Event study					

E	Relationship - Social Performance and Economic Performance -- Event Studies contd.								
	Author(s)	**Year**	**Purpose**	**Method**	**Features**	VARIABLES		**Controls**	**Sign**
						Social Performance	Economic Performance		
15	Block Boston Uni LR	**1991**	To test MR to SP FAA lawsuit	Event study					
16	Bosch and Eckhard RES	**1991**	To test MR to SP DOJ Price fixing	Event study					
17	Davidson and Worrell SMJ	**1992**	To test MR to SP Product recalls	Event study					
18	Alexander and Cohen Working Paper	**1993**	To test MR to SP Criminal misconduct	Event study					
19	Karpoff and Lott JLE	**1993**	To test MR to SP Fraud	Event study					

E	Relationship - Social Performance and Economic Performance -- Event Studies contd.								
	Author(s)	**Year**	**Purpose**	**Method**	**Features**	**VARIABLES**		**Controls**	**Sign**
						Social Performance	Economic Performance		
20	Davidson, et al JBE	**1994**	To test MR to SP Criminal misconduct	Event study					
21	LaPlane and LaNoie Southern EJ	**1994**	To test MR to SP EPA lawsuit	Event study					
22	Dranove and Olsen JLE	**1994**	To test MR to SP Product recalls	Event study					
23	Meznar, Nigh, Kwok AoM J	**1994**	SP and FP	Event study	62 companies disinvesting in SA (from 207)				
24	Frooman B & S	**1997**	Review of event studies	Meta - analysis					

E	Relationship - Social Performance and Economic Performance -- Event Studies contd.								
	Author(s)	**Year**	**Purpose**	**Method**	**Features**	**VARIABLES**		**Controls**	**Sign**
						Social Performance	Economic Performance		
25	Gunthorpe JBE	**1997**	To test unethical behaviour	Event study					**-**
26	Jones and Murrell JBE	**2001**	MR to family-friendly firms	Event study	51 companies that were mentioned in 'Working Mother Magazine				+

Appendix 2: Industry sectors used in the database

Categories taken from *The Times1000* reference book.

(1) Food and drink: including tobacco, brewers, meat, distillers, wine, food manufacturing.

(2) Textiles: including cloth wool, footwear.

(3) Mechanical and general engineering: including machine tools, motor vehicles, components, industrial plant.

(4) Electronic and electrical engineering: including switchgear, information technology, communications, computers, optics.

(5) Processing; including building materials, packaging, paper, metallurgy, printing.

(6) Chemicals: including gases, coal products, oil products, paint manufacturing, plastics, detergents

(7) Financial and other services: including insurance, publishing, newspapers, media, property, leasing, transport, rental, distribution, shipping, storage.

(8) Retail and leisure: including merchanting, hotels, catering, wholesale, commodity broking, motor distribution, general trading.

(9) Pharmaceuticals: including animal products, veterinary products, nutritional products, toiletries, hospital and laboratory supplies.

(10) General manufacturing: including household, toys and games, office equipment, glassware, miscellaneous industrial and mixed manufacturing (i.e. overlap of 3,4,5).

(11) Contracting: including building, civil engineering , construction.

(12) Extractive: including mining, exploration, quarrying.

(13) Aerospace and defence.

(14) Too general groups.

(15) Other: including agriculture, fisheries, animal feedstuffs, timber-growing and forestry.

Appendix 3: Sample record from the CSEAR database

CODE	CSEAR DATABASE
1998	

NAME	SECTOR	TURNOVER	CAPEMP	NEBIT	NOEMPLOY	MKTCAP	NONMKTCAP
ALLIED DOMECQ P	8						

TOTALPP	ACCPP	BACKMEM0	BACKSPARE
58	28		

ENVPOLPP	ENVPOLEVID	ENVPOLAUDI	ENVPOLNEWS	ENVPOLMEMO
0.04		No	NO	
ENVAUDPP	ENVAUDEVID	ENVAUDAUDI	ENVAUDNEWS	ENVAUDMEMO
		No	NO	
WASTEPP	WASTEEVID	WASTEAUDIT	WASTENEWS	WASTEMEMO
		No	G	
ENVFINPP	ENVFINEVID	ENVFINAUDI	ENVFINNEWS	ENVFINMEMO
SUSTBPP	SUSTBEVID	SUSTBAUDIT	SUSTBNEWS	SUSTBMEMO
ENERGYPP	ENERGYEVID	ENERGYAUDI	ENERGYNEWS	ENERGYMEMO
		No	NO	
ENVPP	ENVEVID	ENVAUDI	ENVNEWS	ENVMEMO
		No	NO	
CONSPP	CONSEVID	CONSAUDIT	CONSNEWS	CONSMEMO
		No	NO	

CHARITYPP	CHARINDIV	CHAREVID	CHARAUDIT	CHARNEWS	CHARMEMO
0.14		MQ	Yes	NO	

COMMPP	COMMEVID	COMMAUDI	COMMNEWS	COMMMEMO
		Yes	N	
DIRECTORPP	DIRECTEVID	DIRECTAUDI	DIRECTNEWS	DIRECTMEMO
5.16	Q,D	Yes	N	Ops, Rem'n rep.
CONSULTPP	CONSULEVID	CONSULAUDI	CONSULNEWS	CONSULMEMO
0.1	D	Yes	N	
SAFRICAPP	VASPP	PENSIONPP	EMPDATAPP	
		0.74	3.76	
DISPP	DISEVID	DISAUDIT	DISNEWS	DISMEMO
0.04	D	No	N	
HANDSPP	HANDSEVID	HANDSAUDI	HANDSNEWS	HANDSMEMO
0.06	D	No	N	
SHAREPP	SHAREEVID	SHAREAUDIT	SHARENEWS	SHAREMEMO
0.48	D,Q	Yes	N	
EQUALOPPPP	EQUALEVID	EQUALAUDIT	EQUALNEWS	EQUALMEMO
0.02	D	Yes	N	
EMPOTHERPP	EMPOEVID	EMPOAUDI	EMPOEWS	EMPOMEMO
0.24	D,Q, MQ	No	N	TRAINING, AWARD, DEV'T
CORPGOVPP	CORPGOVEVI	CORPGOVAUD	CORPGOVNEW	CORPGOVMEM
1.54	D	Yes	N	
GENMEMOPP				GENMEMO
0.04				SOCIAL RESPONSIBILITY`

CSRTOTAL	MANPLUSTOT	VOLTOTAL	MANTOTAL	ENVTOTAL	CONSUMTOT	COMMUNTOT	EMPLOYTOT
7.2	6.8	0.4	2.3	0.1		1.72	5.44

Appendix 4: Companies included in the Annual Return Study showing sectors

COMPANY NAME	Sector
UNILEVER PLC	1
UNIGATE PLC	1
BAT INDUSTRIES PLC	1
ROTHMAN'S INTERNATIONAL	1
SAINSBURY'S PLC	1
SCOTTISH & NEWCASTLE	1
ASSOC. BRIT. FOODS	1
NORTHERN FOODS PLC	1
ARGYLL GROUP PLC	1
UNITED BISCUITS PLC	1
WHITBREAD PLC	1
GUINNESS PLC	1
KWIK SAVE GROUP PLC	1
BOOKER PLC	1
HILLSDOWN HOLDINGS	1
CADBURY SCHWEPPES	1
TATE AND LYLE PLC	1
THE BURTON GROUP PLC	2
COURTAULDS PLC	2
SEARS PLC	2
COATS VIYELLA PLC	2
AMEC PLC	3
BRITISH STEEL PLC	3
ROLLS-ROYCE	3
GKN PLC	3
GENERAL ELECTRIC CO.	4
B. T. PLC	4
BBA GROUP PLC	4
BICC GROUP PLC	4
CABLE AND WIRELESS	4
THORN EMI	4
RACAL ELECTRONICS	4
EASTERN ELECTRICITY	4
SOUTHERN ELECTRIC	4
TOMKINS PLC	4
NATIONAL POWER	4
RMC GROUP PLC	5
REED INTERNATIONAL	5
REDLAND PLC	5
COOKSON PLC	5
ARJO WIGGINS APPLETO	5
CARADON PLC	5
WOLSELEY PLC	5

BOWATER PLC	5
BUNZL PLC	5
MEYER INTERNATIONAL	5
WOLSELEY PLC	5
BURMAH CASTROL PLC	6
BRITISH GAS PLC	6
BRITISH PETROLEUM	6
PILKINGTON PLC	6
BOC GROUP PLC	6
SHELL T & T	6
TEXACO	6
P & O PLC	7
BRITISH AIRWAYS PLC	7
LEX SERVICES PLC	7
NFC PLC	7
GREAT UNIVERSAL STORES	7
BLUE CIRCLE INDUSTRIES	7
W H SMITH GROUP PLC	7
WPP GROUP PLC	7
ALLIED DOMECQ PLC	8
GRANADA GROUP PLC	8
HANSON PLC	8
MARKS & SPENCER PLC	8
INCHCAPE PLC	8
BOOTS PLC	8
LADBROKE GROUP PLC	8
RANK ORGANISATION	8
BERISFORD INTERNATIONAL	8
KINGFISHER PLC	8
DALGETY PLC	8
TESCO PLC	8
BASS PLC	8
DIXONS GROUP PLC	8
ASDA GROUP PLC	8
FORTE PLC	8
GLAXO HOLDINGS PLC	9
WELLCOME PLC	9
ICI PLC	9
ZENECA PLC	10
RECKITT & COLMAN	10
BET PLC	11
GEORGE WIMPEY PLC	11
TAYLOR WOODROW PLC	11
MOWLEM PLC	11
TARMAC PLC	11
BTR PLC	11

COSTAIN GROUP PLC	11
RTZ PLC	12
LONRHO PLC	12
LUCAS INDUSTRIES	13
BRITISH AEROSPACE	13
EMAP PLC	14
CORDIANT PLC	14
STOREHOUSE PLC	14
PEARSON PLC	14
REUTERS HOLDINGS PLC	14
JOHNSON MATTHEY PLC	14
TOTAL n=100	

Appendix 5: Companies included in the Monthly Returns Study showing sectors

COMPANY NAME	SECTOR
HILLSDOWN HOLDINGS	1
GUINESS PLC	1
WHITBREAD PLC	1
UNILEVER PLC	1
TATE AND LYLE PLC	1
SCOTTISH & NEWCASTLE	1
CADBURY SCHWEPPES	1
SAINSBURY'S PLC	1
BAT INDUSTRIES PLC	1
NORTHERN FOODS PLC	1
ASSOC. BRIT. FOODS	1
THE BURTON GROUP PLC	2
COATS VIYELLA PLC	2
COURTAULDS PLC	2
AMEC PLC	3
BRITISH STEEL PLC	3
GKN PLC	3
CABLE AND WIRELESS	4
THORN EMI	4
BBA GROUP PLC	4
B. T. PLC	4
GENERAL ELECTRIC CO.	4
RACAL ELECTRONICS	4
TOMKINS PLC	4
WOLSELEY PLC	5
WOLSELEY PLC	5
REDLAND PLC	5
REED INTERNATIONAL	5
RMC GROUP PLC	5
COOKSON PLC	5
PILKINGTON PLC	6
BRITISH PETROLEUM	6
BOC GROUP PLC	6
BURMAH CASTROL PLC	6
SHELL T & T	6
BRITISH GAS PLC	6
GREAT UNIVERSAL STOR	7
BRITISH AIRWAYS PLC	7
LEX SERVICES PLC	7
W H SMITH GROUP PLC	7
RANK ORGANISATION	8

TESCO PLC	8
ALLIED LYONS PLC	8
DALGETY PLC	8
HANSON PLC	8
MARKS & SPENCER PLC	8
KINGFISHER PLC	8
BASS PLC	8
DIXONS GROUP PLC	8
INCHCAPE PLC	8
GRANADA GROUP PLC	8
GLAXO HOLDINGS PLC	9
ICI PLC	9
ZENECA PLC	10
MOWLEM PLC	11
COSTAIN GROUP PLC	11
GEORGE WIMPEY PLC	11
RTZ PLC	12
BRITISH AEROSPACE	13
CORDIANT PLC	14
STOREHOUSE PLC	14
EMAP PLC	14
JOHNSON MATTHEY PLC	14
REUTERS HOLDINGS PLC	14
PEARSON PLC	14
TOTAL n= 68	

Appendix 6: Example Letters to Companies

Peter Mason Esq
Chief Executive
Amec Plc
Sandiway House
Hartford
Northwich
Cheshire
CW8

November 2000

Dear Mr Mason,

SOCIAL AND ENVIRONMENTAL DISCLOSURES - DO THEY ADD SHAREHOLDER VALUE ?

You will be aware that over the last 10 -15 years there has been a noticeable increase in social and environmental disclosures by all British companies, although it is difficult to include AMEC in this generalisation. For most companies this has taken the form of increased disclosures in Annual Reports, and in recent times the practice by some companies of publishing separate environmental, and now, social reports. In most cases there has been a parallel development in web-based publishing, with most companies making mention of social and environmental issues. There are also award schemes run by the ACCA covering environmental and social reports.

You may also be aware of the Centre for Social and Environmental Accounting (CSEAR) now situated at Glasgow University, and its continuing focus on such issues. As part of our ongoing research, I am investigating the transmission mechanism that exists between companies and the financial markets for the dissemination of social and environmental information, and in particular, the association between such disclosure and share price movements. To the best of my knowledge, this link has not been explored in a UK context, yet findings by researchers in other countries suggest that the information has *some* influence on market participants and their actions.

I have already completed a statistical examination of the association between social and environmental disclosures and share price returns, over a 10 year period, by constructing a database of corporate disclosures of the UK 'Top 100' companies, and regressing various categories of disclosure against share price returns. I am now continuing the study by conducting a series of interviews with CEO's, senior company officials, investment analysts, and fund managers.

At the conclusion of the study I intend to send a report of my observations and findings to the participants, and will be happy to discuss individual issues as required. For the company this may give a perspective presently not fully appreciated, and at this time of uncertainty over the new provisions whereby pension funds must disclose their investment policy with regard to these issues, the information should also prove of interest to both analysts and fund managers.

In most cases the interview lasts for about an hour, and would be held at a time and venue to suit. I supply a list of questions covering the broad area of discussion at least 3 weeks before the date of the meeting so that participants are fully aware of the nature of the interview. Clearly, the contents of the interview are treated in the strictest confidence and in any subsequent publication no reference will be made to any matter which might identify the company.

I am conducting the interviews between mid-September and the end of December of this year, and hope that you can find the time to help me. If so I would ask you to intimate, in the first instance, a preferred time and venue for the meeting. If you need any further information in the meantime I can be contacted on 07785 248063.

Yours sincerely

Alan Murray B.Acc

Researcher

Sydney Gillibrand CBE
Chairman
Amec Plc
Sandiway House
Hartford
Northwich
Cheshire
CW8 2YA

November 2000

Dear Mr Gillibrand,

SOCIAL AND ENVIRONMENTAL DISCLOSURES - DO THEY ADD SHAREHOLDER VALUE ?

Please find attached a copy of a letter sent to your Chief Executive, Mr Peter Mason, in which I request an interview with him to discuss your social and environmental policies and how such activities impact on the financial markets, as part of my PhD project.

As far as I am aware this is the first such UK study and therefore the results may be of interest in informing future strategies in this area. I hope you feel able to assist me. If any further information is required I can best be contacted on 07785 248063

Yours sincerely

Alan Murray B.Acc.

Researcher

Appendix 7: Semi-Structured Interviews (Company)

COMPANY INTERVIEWS

AREAS OF DISCUSSION

1. General discussion about the structure of the organisation; where Sustainability/ CSR (Reporting) factors feed into the hierarchy of the company; responsibilities, etc

2. CSR - how is the data collated, and by whom; board involvement? How has the disclosure policy of the company evolved? When have changes been observed and how was that change negotiated?

3. How, and by whom, are the company values defined and created? What sort of culture is thus created within the company?

4. Communication with the market. How, and by whom are disclosures handled; financial and non-financial?

5. Influence of new pension regulations on disclosure of ethical elements of investment; internal and external?

6. Conflicts arising between push for financial growth and issues surrounding sustainable development.

7. The influence of awards for CSR; ACCA, Business in the Community, etc.

8. Disclosure patterns in Annual Reports against more specialised reports, web-sites, etc.

9. Moves towards Sustainability Reports, eco-balance and ecological footprint reports.

10. How are critics of the organisation approached and handled?

Appendix 8: Semi-Structured Interviews (Market)

MARKET INTERVIEWS

AREAS OF DISCUSSION

1. General discussion about responsibilities and position in the company; structure of the company.

2. Changes over the period 1988 - present. Significant changes in focus, Sustainability issues?

3. Ethical investment/funds. Ethical dimensions to Pension funds.

4. Contact with companies. Formal and informal.

5. Voting policies; other means of bringing pressure to bear on companies.

6. Corporate Social Performance - place in investment appraisal by institutions?

Appendix 9 – Companies Interviewed

Co	Sector	Main Activity	Interviewee
1	1	Manufacturer of Foodstuffs	Corporate Affairs Director
2	1	Manufacturer of tobacco products	Operations Director Social Accountability Manager
3	1	Brewing and leisure	Co. Secretary
4	4	Telecommunications	Director - Social Policy
5	6	Utilities	Environmental Manager
6	6	Utilities	Corporate Environmental Director
7	6	Utilities	CEO
8	6	Fuel and Chemical production	Global Policy Unit Director
9	9	Pharmaceuticals	SHE Director
10	9	Pharmaceuticals	Investor Relations Director Corporate Affairs Director
11	11	Construction	Corporate Affairs Director
12	12	Mining	SHE Director

Appendix 10 – Funds under SRI Management

Year	Pooled SRI fund size(£m)
1989 (July)	199
1990	not available
1991 (July)	318
1992 (May)	372
1993 (May)	448
1994 (July)	672
1995 (June)	792
1996 (June)	1,088
1997 (June)	1,465
1998 (June)	2,198
1999 (June)	2,447
2000 (June)	3,296
2001 (June)	4,025
2002 (Mar)	3,800
2003 (June)	3,570
2004 (June)	4,555
2004 (Dec)	5.532
2005 (Dec)	6,078
2006 (Dec)	7,490
2007 (Dec)	8,881

The Ethical Investment Research and Information Service
Source: www.eiris.org

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